



International
Labour
Office

Responding to worker displacement:

A collection of case studies

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Foreword

Responding to Worker Displacement: A collection of case studies is intended as a companion reader to our earlier publication *A Guide to worker displacement: Some tools for reducing the impact on workers, communities and enterprises*¹.

The Guide was originally published in 2001, as a response to the financial crisis that gripped much of Asia in 1997 with severe impacts in terms of worker retrenchments and rising unemployment. Drawing on a wealth of experience, primarily in North America, Central and Eastern Europe, the Guide presents possible strategies for averting layoffs and promoting business retention including early warning stressing the importance of monitoring, and rapid response mechanisms such as retraining, to ensure worker adjustment and economic renewal.

In 2008, many countries throughout the world faced a new financial crisis with employment impacts that surpassed in severity the experience in the late 1990s. In an effort to assist policy-makers, employers and workers, and community leaders to consider alternatives to worker retrenchment and responses to mass lay-offs, the ILO's Skills and Employability Department reissued the publication in early 2009. In response to requests for more practical examples of these strategies, the ILO has prepared *Responding to Worker Displacement: A collection of case studies* intended as a companion reader to the earlier publication.

The collection presents examples from Australia: *Prioritizing community and personal well-being*; China: *Training responses to industrial closures*; The Czech Republic: *Retraining for new technology with hands-on experience*; Egypt: *The "labour pool" approach in the textile industry*; Germany: *Short-time work and continuity of employment*; Mexico: *Short-time work as a collaborative approach to worker displacement*; The Netherlands: *A suite of innovative approaches*; and The United Kingdom: *Collaborative best practice in engaging with displaced workers*.

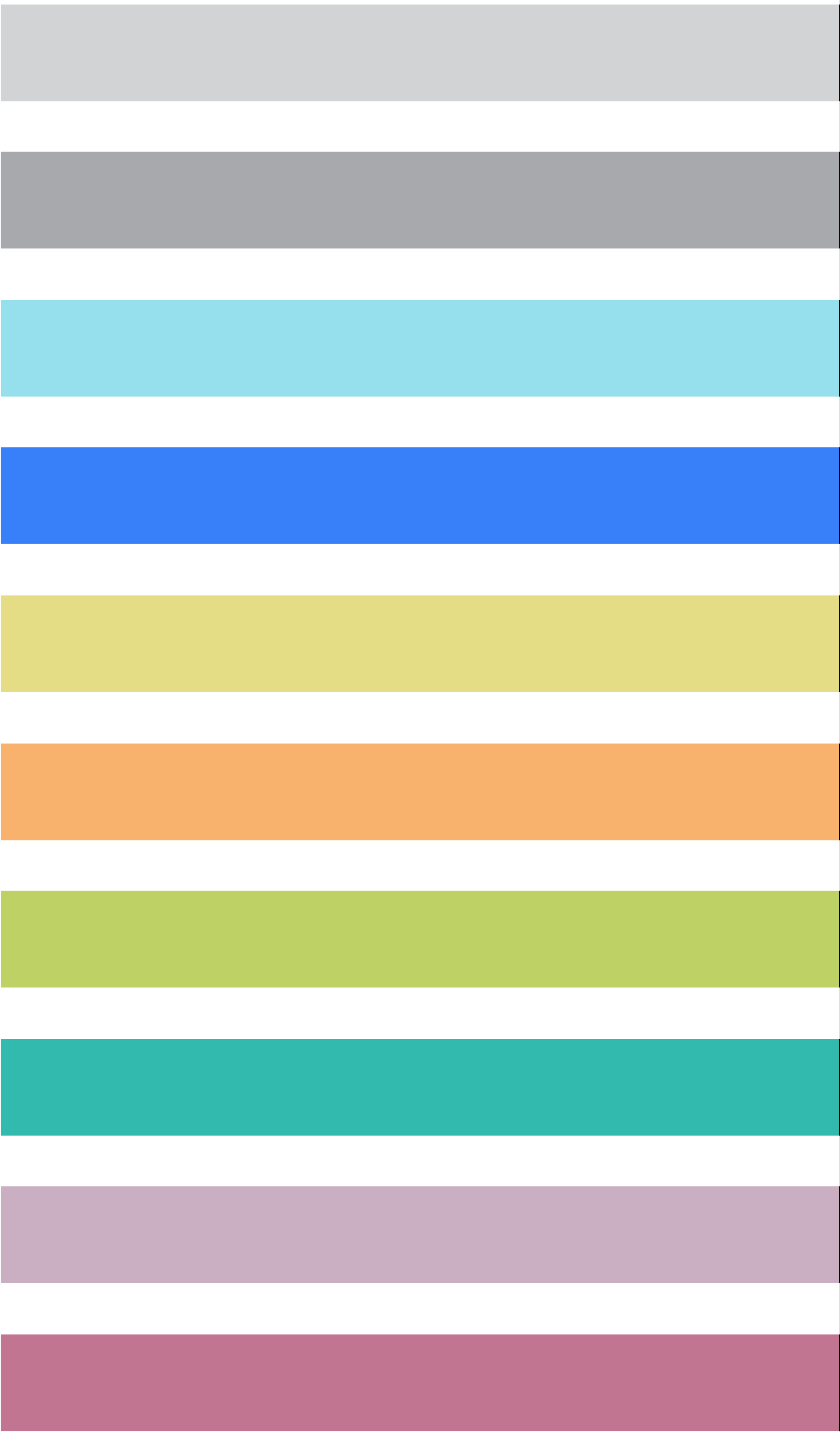
Each case study illustrates the principles for fair responses which have been set out in the Guide and collectively demonstrate the diversity of actions which have resulted from effective social dialogue and collaborative interaction in managing labour market adjustments under a variety of circumstances.

Initial drafting of the case studies was completed by Frank Kavanagh and the consulting firm, Nehem International. Technical editing was done by Gillian Somerscales and Jane Auvre. The project was managed by Donna Koeltz, ILO Senior Employment Services Specialist.

We hope these case studies, when read in combination with the Guide to Worker Displacement, will be useful to policy makers, employers and workers in developing appropriate responses for promoting worker retention and employment during troubling economic times, and will help to illustrate how the response modality can be applied universally and adapted to address a wide range of labour market adjustments.

Christine Evans-Klock
Director
Skills and Employability Department

¹The full text of the Guide, by Gary B. Hansen, is available at http://www.ilo.org/skills/pubs/WCMS_103594/lang--en/index.htm



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Acronyms

ALMP	Active labour market policies
APL	Accreditation of prior learning
AUD	Australian dollar
CNC	Computerized numeric control
CNY	Chinese yuan renminbi
COAG	Council of Australian Governments
CWI	Centre for Work and Income
DEEWR	Department of Education, Employment and Workplace Relations
EGP	Egyptian Pound
EU	European Union
GDP	Gross domestic product
IAP	Individual action plan
IDB	Inter-American Development Bank
JCA	Job Capacity Assessment
JSA	Job seekers allowance
JSCI	Job seeker classification instrument
LAC	Labour Adjustment Committee
LAP	Labour adjustment package
LEP	Local Employment Partnerships
LSC	Learning and Skills Council
MAC	Mill advisory committee
MGRTF	MG Rover Task Force
MMAL	Mitsubishi Motors Australia Limited
MXN	Mexican peso
ND	New Deal
OECD	Organisation for Economic Cooperation and Development
PES	Public Employment Service
RCPO	Retraining Centre for Precision Cutting Opava
RDA	Regional Development Agency
RSC	Re-employment service centre
RTF	Rover Task Force
SOE	State-owned enterprises
STPS	Ministry of Labour
STW	Short-time working
UWV	Network of unemployment benefit payment centres
VET	Vocational educational training

CHAPTER 1

Australia: Prioritizing community and personal well-being

Summary

The Australian experience is a valuable example of the development of comprehensive and effective responses to retrenchment. An outsourced public employment service (PES) has been a very effective element in the Government's toolkit to address industrial restructuring and consequent worker displacement. Examples of displacement in the automotive industry are examined and, in line with the *Guide to worker displacement*, the importance of community and personal well-being is explored. Lessons learned have been applied in recent responses to displacement.

As outlined in the *Guide to worker displacement*, PES interventions are key tools used in addressing retrenchment in most countries. Their effectiveness can be crucial in achieving positive placement outcomes for retrenched workers. Australia provides a unique opportunity to look at responses to worker displacement in an environment where a quasi-market approach to PES is in place and ALMPs are implemented in that context.

A significant **challenge** was presented in 2004, when Mitsubishi Motors Australia Limited (MMAL) closed its foundry and engine manufacturing plant at Lonsdale in South Australia, with 700 redundancies; another 400 jobs were lost through voluntary redundancy at the MMAL larger vehicle assembly plant at Tonsley Park.

The Government's **response** focused on successful immediate re-employment of those who had lost jobs, rather than on taking the opportunity to address the identified skills shortages in the region. This provides an interesting contrast to the British response to the MG Rover closure (see UK case study below), as part of which £50 million was set aside for worker retraining. At the time of the MMAL retrenchment the Australian labour market was fairly buoyant, with jobs available to most of those seeking work.

A labour adjustment package (LAP) worth 10 million Australian dollars (AUD) was put in place and delivered through the outsourced PES (Job Network). This included giving redundant workers access to services normally available only to the long-term unemployed. However, Job Network's contractual arrangements and incentives (at that time) skewed provider behaviour towards getting job seekers employed in the short term rather than equipping them with training and skills to meet local employers' needs. It might have been more appropriate to direct LAP funding towards opening up training or reskilling opportunities to help redundant workers to take advantage of job opportunities in other growing industries within the South Australian economy. Such a focus would have been in line with the recommendations of the *Guide to worker displacement*.

It is clear that past responses to retrenchments such as that at MMAL were positive but also that they could be improved upon. Lessons were learned from that experience. In particular, acknowledgement of the need for a stronger PES and more community and social/psychological support for redundant workers reflects the emphasis placed on these aspects of provision in the *Guide to worker displacement*. New programmes have been introduced in response to the recent economic crisis; the PES has been refocused and reinforced; and new job seeker support measures are in place. Vocational training is also being reinforced, and there is a greater awareness of the implications of redundancy for the health of communities and individuals.

Background

Australia is unique in the extent to which it has implemented a quasi-market approach to PES, and accordingly provides a unique opportunity to look at responses to worker displacement, and the implementation of ALMPs, in that context. Other countries, such as the United Kingdom, the Netherlands and Germany, have experimented with the quasi-market model, but none has applied it to the same extent as Australia.

The Australian economy has stood up well to the recent economic turbulence. In 2008 the country was still reporting labour and skill shortages and ALMPs were mainly focused on getting the remaining inactive elements of the working-age population into the workforce, rather than having to deal with increasing unemployment. The focus has, however, changed since then in response to the world economic crisis.

Institutional framework

The quasi-market approach to PES was launched in Australia in May 1998, when most of the country's PESs were replaced by the Job Network, which under the first contract, from May 1998 to February 2000, delivered services through about 300 contracted organizations (OECD, 2001).

The early years of the Job Network

The Job Network represents an important experiment in creating quasi-market conditions for the development of employment services. It is a network of agencies, some private and some entirely government-funded, which provide employment services on behalf of the Australian Government. One of the main factors motivating its introduction was the excessive increase that had taken place in the costs of providing employment services in Australia – costs which have since been significantly reduced. Service providers are offered incentives through graduated payments for placing job seekers in work.

In the first tender round of the new system, contracts were issued to a wide variety of providers, resulting in high variability of performance. Providers were rewarded for the number of clients placed in jobs lasting at least three months (with an additional bonus for those gaining jobs lasting six months), and first received general feedback about their individual placement performance early in 1999.

Over time, this system of reward for results and feedback on performance made it possible for providers to identify good or bad aspects of their strategies and to make appropriate changes, and for the Government to select providers on the basis of performance. In 2003, the Department of

Education, Employment and Workplace Relations (DEEWR) reported an increase in the net positive impact of Job Network services, which it attributed to "the market developing, and in recent times, the introduction of the 'Star Ratings' system which has driven substantial performance improvements" (OECD, 2005).

Extensive reforms announced in 2002 became operational in the third Job Network contract period, which started in July 2003. Overall, the improvements in results reflect both the extensive research that has informed the general strategy and the increased accuracy and influence of explicit measures of comparative provider performance.

The 2009 PES reforms

A review of employment services by the Minister for Employment Participation published in 2008 indicated a widespread desire for change. The review (DEEWR, 2008) identified a number of sources of discontent with the prevailing system :

- the fragmented and complex nature of the system ;
- the inflexibility of the timing of interventions, which required all job seekers to be treated on the same path irrespective of their needs ;
- the failure to target resources at the most disadvantaged job seekers ;
- insufficient emphasis on skills development and training ;
- an ineffective and counterproductive way of applying conditionality ;
- a burden of administration and red tape affecting client services and hampering innovation.

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Reforms were implemented in response to these concerns, covering both PES and other ALMPs (e.g. the new Indigenous programmes and the new Job Seeker Classification Instrument - JSCI). The Jobs Network was relaunched as Job Services Australia, with the stated aim of reintegrating the most disadvantaged into the workforce and addressing a scenario of “lower unemployment, widespread skill shortages and a growing proportion of job seekers who are highly disadvantaged and long-term unemployed” (DEEWR, 2008, minister’s foreword). The new PES model absorbs a number of existing programmes such as Community Work, the Green Corps, the Harvest Labour Service, the Job Placement Employment and Training Scheme, and the Personal Support Programme.

The newly revised JSCI, which is the main job seeker profiling tool, provides for better assessment of barriers hindering disadvantaged job seekers’ access to employment, with new questions addressing such factors as proximity to a labour market, access to transport, English-language skills and work capacity. Overall, the new JSCI is designed to achieve a fuller, more balanced and holistic assessment of the individual job seeker’s circumstances, whether they reside in a remote, regional or metropolitan area.

Refinements have also been made to the wording of some existing JSCI questions and response categories. These changes, based on feedback from job seekers, Job Capacity Assessment (JCA) providers, Centrelink² and employment services providers, are aimed at improving job seekers’ understanding of the process and increasing the ease and efficiency of JSCI administration.

As a third important area of improvement, refinements have been made to the identification of barriers to employment experienced by individual job seekers that serve as triggers for referral to JCA. Only job seekers at high risk of remaining unemployed are counselled immediately by their case managers, whereas low-risk job seekers were eligible for job-search training only after a few months. However, under the 2009 Compact with Retrenched Workers (see below), newly redundant workers have immediate access to training leading to higher vocational qualifications.

²Centrelink is the trading name of the Commonwealth Service Delivery Agency (CSDA), a statutory authority responsible for delivering human services on behalf of agencies of the Commonwealth Government of Australia.

Challenges

Both large and small businesses downsized in 2009, including Qantas, Pacific Brands Rio Tinto, and BHP Billiton. Lessons learned from previous experience (discussed below) were reflected in responses to this latest retrenchment.

Changes to redundancy laws in 2009 placed a greater onus on employers to explore alternatives to cutting jobs, such as redeployment. The changes required employers not only to look within their own companies for other roles for employees no longer required in their existing jobs, but also to look at any available positions within related companies. The Government was vocal in asking businesses to treat retrenchment as an option of last resort. The major stimulus packages introduced were consistent with this approach.

Responses

Recent responses

The Compact with Retrenched Workers agreed by the Council of Australian Governments (COAG) at its meeting on 2 July 2009 complemented the Compact with Young Australians agreed by COAG earlier the same year, under which every 15–19 year-old is guaranteed an education or training place and every 20–24 year-old is guaranteed a training place for upskilling. COAG recognized the significant investment made by all jurisdictions in supporting retrenched workers and agreed that displaced workers aged 25 years and over would be entitled to training places in a government-subsidized vocational education and training programme leading to a higher qualification.

As part of the Compact :

- Job Services Australia providers would help retrenched workers to identify their skills and training need and work with the states and territories to implement the training entitlement.
- States and territories would prioritize the provision of training places to support the Compact.
- The training entitlement was available to all workers retrenched since January 2009 who held letters of redundancy from their employers and who were registered with Job Services Australia providers. The entitlement was offered from July 2009 until December 2011.

The Australian Government has provided LAPs to assist job seekers in areas where expectations of future employment opportunities for workers in industry are low or where large-scale closures may impact on the local labour market. In deciding where to apply these measures the Government takes into consideration the circumstances and likely impact of the situation for both the individuals and the local communities concerned. This is in line with best practice outlined in the *Guide to worker displacement*.

The precise content of the packages varies, depending on the particular circumstances in the industry or company affected. Typically, the LAP provides job seekers with immediate access to intensive support services and individual assistance tailored to their needs; wage subsidies for employers who are prepared to offer work to eligible workers; assistance with relocation and self-employment; and access to and funding for industry-specific training.

In response to the global financial crisis, the Government announced in February 2009 a three-year Nation Building and Jobs Plan worth AUD 42 billion to stimulate the Australian economy and support employment, with an investment of AUD 298.5 million in employment services in Australia. This funded access for newly retrenched workers to intensive personalized assistance through local employment services providers, to help them find new jobs as quickly as possible. It also supported a broad range of intensive assistance to individuals, both vocational and non-vocational, aimed at addressing specific barriers to employment. This included career advice; a comprehensive skills assessment; skills development training; IT support and stationery support to help with job applications; targeted referral to appropriate education and training; and assistance to pay for items such as computer courses, licences and equipment.

Past responses

In 2004 MMAL closed its foundry and engine manufacturing plant at Lonsdale in South Australia with 700 redundancies. Another 400 jobs were lost through voluntary redundancy at the company's larger vehicle assembly plant at Tonsley Park. The job losses were spread out over a 14-month period. Southern Adelaide, where the closures occurred, was at the time a relatively poor region and the closures were traumatic for the local economy.

A good deal of research material is available describing the effects of these closures and the lessons to be learned from the Government's response. Beer and Thomas (2007) point out that large-scale redundancy has a profound impact not only on the individuals affected, but on their families and communities as well, and calls for a correspondingly profound response by government. They note that the Australian Government's response to the MMAL closures included an assistance package for the region worth AUD 50 million; but they report that a high percentage of the investment grants given to firms in order to create employment was awarded to firms outside southern Adelaide (the area most affected by the redundancies), and suggest that funding could have been better targeted.

A major LAP worth AUD 10 million was put in place and was delivered through the outsourced PES (Job Network), operating as outlined above. Support for job search was augmented by giving redundant workers access to services normally available only to the long-term unemployed. However, as pointed out in a recent DEEWR discussion document (DEEWR, 2008), Job Network's contractual arrangements and incentives at that time encouraged providers to focus on short-term job outcomes rather than equipping job seekers with training and skills linked to local employers' needs. LAP funding might have been more appropriately focused on "further training or re-skilling opportunities to redundant workers so as to help them take advantage of job opportunities in other growing industries of the State's economy" (Beer and Thomas, 2007, p. 243).

The focus seems to have been on getting retrenched workers into other jobs as soon as possible rather than on taking the opportunity to address skills shortages in the region, even though another study indicated that 59 per cent of the redundant workers actually had personal plans for further training (Beer et al., 2006). This stands in contrast to the response of the UK Government when MG Rover closed down (see UK case study below), as part of which £50 million was specifically set aside for the retraining of workers. These reflections must be seen in the context of the fairly buoyant labour market of the time in Australia, where most seeking work could access jobs, albeit perhaps at lower levels of pay and skill and possibly outside the local area. It is also important to note that the very good redundancy payments made by Mitsubishi allowed many ex-workers to pay off debts and mortgages, thus relieving some of the financial stress of redundancy and making it easier for them to accept lower-paid jobs.

Lessons learned

The MMAL experience and other downsizing episodes have generated a number of lessons and recommendations, and, as stated earlier in this case study, some have been incorporated in measures adopted in response to the recent international economic crisis. This section draws extensively on an evaluation report that outlines lessons learned from the MMAL retrenchment (Beer et al., 2006).

Community building and health

The full impact of redundancy on the health of individuals and the strength of communities may not emerge until a number of years after jobs have been lost. The effects include lower incomes, depression, more sedentary lifestyles and less social interaction. Although there was a strong sense of social community within MMAL, some redundant workers were left without social networks once outside the company environment. This isolation could be addressed by one-off social events – perhaps organized by local community groups, trade unions or local government agencies – to bring these workers back into contact with one another. Those who have lost jobs should be encouraged to join local community groups and/or become volunteers. A community action plan to address community and health issues would have been useful and should be put in place in readiness for any future closures.

Employment

PES assistance was good but perhaps not sufficiently focused on the needs of highly skilled workers, for whom some job offers were inappropriate. A key point here is the need to ensure that PES have sufficient human and other resources to provide a holistic service across *all* occupational levels. There was a perception among the workers affected by the MMAL cutbacks that the Job Network was more accustomed to dealing only with low-skilled workers. It is important to customize employment-related interventions to the needs of the client group (in this case highly skilled workers) rather than to apply an existing model “off the shelf”.

Figure 1 outlines the employment outcomes from three waves of redundancies at MMAL Lonsdale, Australia. It is clear that placement outcomes were mixed; other data indicate that wages offered to the re-employed were on average lower than those paid in their MMAL jobs. These outcomes present a challenge to PES, as mentioned above.

Figure 1: Aggregate employment status at Waves 1, 2 and 3 at MMAL Lonsdale, South Australia

	Wave 1	Wave 2	Wave 3
Self-employed	31	38	34
Employed full time	89	107	113
Employed part time	28	10	17
Employed as a casual	25	61	58
Working without pay	0	2	1
Unemployed : looking for work	65	42	16
Retired	20	29	35
Full-time student	5	6	4
Household duties	9	4	5
Not working because of disability	16	13	15
Caregiver duties	0	2	2
Total	288	314	300

Source: Johannes Pieters, 2013. “Exploring the Process of Adjustment to Retrenchment: Putting Home in its Place” a thesis submitted for Doctor of Philosophy Flinders University Adelaide Australia.

Training and skills

Retraining and upskilling options are key elements of sound responses to retrenchment. The development of an education and skills forum or task force specifically focused on the needs of displaced workers is crucial and should be linked to identified skills needs and shortages in the region. It is essential that adequate funds are committed to training and reskilling.

Worker mobility to facilitate access to jobs outside the immediate locality could in future be supported by travel subsidies, perhaps as part of a “skills hub”, in order to avoid the loss of manufacturing and engineering experience from the region. This was successfully done in the UK MG Rover case examined below, where the package included:

- a travel subsidy of up to £75 per week per worker for up to 20 weeks ;
- training to National Vocational Qualification level for each redundant worker taken on by a new employer, plus one other existing employee ;
- a wage induction subsidy to employers of £50 per week per employee for 12 weeks.

The “Skills Hub” provided not just travel subsidies but established a skills matching service whereby employers could register vacant positions they were trying to fill and the “Skills Hub” would endeavour to find suitably qualified ex-Rover workers for the position. Importantly, employers who took on ex-Rover workers were provided with not just a wage subsidy but training for the ex-Rover worker and significantly one other existing employee. The MG Rover Task Force reported that this service had a significant impact in helping ex-MG Rover workers obtain new employment, and immediate job offers incorporating an element of training. (Beer et al., 2006).

Self-employment

Support was provided for those redundant workers wishing to take up self-employment options, but it is clear from evaluation of the retrenchment responses that more could be given. In particular, there is a need for continued mentoring and financial counselling. Mechanisms should also be developed to help those who set up in business on their own to establish a good work/life balance, as self-employed people typically tend to work longer hours than employed workers to achieve a reasonable income.

Displaced workers and personal psychological well-being

Evaluative studies also point to the need to make counselling available, not just to help people find new jobs but also to meet their psychological needs. Workers who are made redundant lose not only their jobs but a whole social network and in many cases a *raison d'être*, resulting in a loss of confidence and well-being. The need to provide counselling resources was identified in the early stages of the MMAL retrenchment and new types of counselling support are being provided in more recent redundancies. These include the provision of consultants to address issues such as the mental well-being of workers as they move into the new reality of a new job or confront the potential loss of social networks that may be associated with retirement or unemployment.

Conclusions

It is clear that past responses to retrenchments such as that at MMAL were positive, but also that they could be improved upon. Lessons have been learned: new programmes are in place to respond to the recent economic crisis, PES have been refocused and reinforced, and new job seeker support measures are in place. Vocational training is also being reinforced, and there is a greater awareness of the community and personal health aspects of redundancies and of the corresponding response requirements.

These and other lessons learned were applied in the context of the closure of the last MMAL plant at Tonsley Park, announced in 2008. Labour market programmes focused on “doing it better this time” included funding to the main trade union to provide long-term assistance to workers. There was also a greater focus on seeking full-time and high-quality employment for displaced workers.

CHAPTER 2

China: Training responses to industrial closures

Summary

This case study describes a wide range of labour market programmes implemented in China in response to worker displacement, and evaluates in particular training responses to industrial closures in two cities, Shenyang and Wuhan.

The Chinese Government has addressed the **challenge** of the recent economic downturn and the resultant increases in unemployment through expansionary fiscal and monetary policies. Government investment has soared in recent years. New public infrastructure projects are designed to create labour demand and offset any lag in private investment.

The PES was established relatively recently, between 1994 and 1998, partly in response to the restructuring of the state-owned enterprises (SOEs) and the need to deal with the consequent unemployment. Over the subsequent decade it has expanded rapidly.

Recent responses to unemployment include a range of initiatives such as a system by which firms can give early warning of proposed redundancies, tax breaks for companies that employ laid-off workers, tax breaks for laid-off workers who become self-employed, extension of social security for laid-off workers, active employment measures for graduates and migrant workers, new internships for young people and a community employment programme for young graduates. The Government has also taken measures to respond to the particular challenge of migrant workers, a major labour market phenomenon in China.

2

In 1998–2000, as a result of high unemployment in two cities, Shenyang and Wuhan, a range of ALMPs were put in place and made available via the PES centres. These included training programmes for displaced and unemployed workers. The training offered in Wuhan was more varied than in Shenyang, and that delivered by the private sector in particular seems to have been more closely connected to local demand for the skills imparted.

In Shenyang, workers who had undertaken training had similar placement outcomes to those who did not participate. In Wuhan, on the other hand, participation in training appears to have improved placement rates in contrast with a control group who did not take part. **Lessons learned** therefore include the need for policy-makers to adopt a critical approach to retraining and recognize that expectations should be moderate. For the best chance of positive outcomes, training programmes should be carefully designed and targeted to labour market needs.

Background

China presents a particular labour market model established and currently maintained on the basis of a communist ideology committed to the supremacy of fundamental workers' rights. Today, this worker-focused ideology sits side by side with a market-led economy.

The Government addressed the economic downturn and the resultant increases in unemployment by adopting expansionary fiscal and monetary policies and sharply increasing investment in the national economy. New public infrastructure projects have been initiated with the aim of creating demand for labour and compensating for a slowdown in private investment.

Institutional framework

China's establishment of a PES in 1994–8 came about partly in response to the restructuring of the SOEs and the need to deal with the unemployment thus created. Half of all workers made redundant in 1998, for example, found new jobs through the new PES structures.

PES centres provide a “one-stop” registration service to laid-off and unemployed people looking for jobs; they also provide career guidance, notification of vacancies, social insurance coverage, and access to skills training. Training for re-employment is organized at various levels and is tailored to meet the skill needs both of individuals and of regional economies in order to enhance the employability of those without work.

Those who are able to set up their own businesses are offered relevant training and guidance, and provided with consultancy, follow-up assistance and other services. If required in a particular area or during a retrenchment procedure, the PES can set up a specialized “coordinated process” service, covering industrial and commercial registration, taxation procedures and labour protection matters, that is offered to laid-off and unemployed workers who want to set up their own businesses.

Unemployment benefit for urban workers was introduced in 1998. Under the older “Xiagang” system, which has now been dismantled, laid-off workers remained attached to the SOE and were given subsistence payments and health and pension contributions for up to three years. Many of these workers had difficulty finding other jobs, but the system was a useful tool to ease the transition from employment by an SOE to other work.

By the end of 2005 the PES was operating on a vast scale, providing services to an average of 20 million people a year through a network of 3,860 employment agencies across the country with a staff of 27,000. Private agencies are also encouraged, and by 2005 8,600 had been established. Some PES offices have a training resource either incorporated into or attached to the office, thus providing a supply of trained job seekers to match the skills needs of particular industries.

Challenges

Continued industrial adjustment has caused a large number of layoffs in recent years. Between 1998 and 2003 the total number of people laid off from SOEs was 28.18 million. Particular problems face younger labour market entrants and migrant workers. In 2005, 5 million graduates joined the workforce; in 2007 there were 6 million jobless graduates, many of whom lacked basic job seeking skills. Approximately 100 million migrant workers have flocked from the rural parts of China into the industrial areas in search of the pay and welfare benefits unavailable in the rural economy.

Responses

Recent responses

The Government's main macro-level response to these challenges consisted of a two-year programme in 2008–09 involving a total investment of Chinese yuan renminbi (CNY) 4 trillion, equivalent to 16 per cent of 2007 GDP. Most of this investment went into government-subsidized housing projects, rural development (including community support), railway construction, and other infrastructural projects including recovery and rebuilding in the aftermath of the Sichuan earthquake of May 2008. The railway project was designed to consume 50 per cent of the total fund in building 20,000 kilometres of railways over the two-year period. It was estimated that this project would create 6 million jobs and require the production of 20 million tonnes of steel, thus creating supplier employment.

Other specific responses to the challenge of rising unemployment include the following:

- enhancement of the tripartite response involving the social partners;
- a system enabling firms to give early warning of proposed redundancies;
- tax breaks for companies that employ laid-off workers;
- tax breaks for laid-off workers who become self-employed;
- extension of social security for one year to laid-off workers;
- more active employment measures for graduates and migrant workers and a new vocational education and training programme for migrant workers (including the World Bank funded Rural migrant skills development and employment project 2008/9);
- new internships for young people;
- a community employment programme for young graduates.

Past responses

Between 1998 and 2003 the Chinese Government allocated a total of CNY 73.1 billion for basic subsistence payments to and re-employment of laid-off workers from SOEs. Policies for promoting the re-employment of laid-off workers were formulated as follows:

- Creation of new job opportunities through the establishment of micro enterprises and incubator centres. In 2002 China introduced the Small and Medium Sized Enterprises Promotion Law in order to standardize approaches to fostering SMEs and to support their further development.
- Support and encouragement for the development of the services sector. From 2002 this has been directed to areas such as tourism, community social services, catering and various brokerage services, helping to create job opportunities for the unemployed.
- Establishment and reinforcement of the PES (as outlined above) and active promotion of vocational guidance for unemployed workers.
- Provision of increased financial support to companies willing to take on redundant workers.
- Strengthened skill training to better equip redundant workers for re-employment.

In 2003 jobs were provided for 4.4 million laid-off workers, of whom 1.2 million were men over 50 years of age and women over 40 years of age who were identified as having difficulties finding re-employment.

Box 1 : The State Council's document on retrenchment, published in the *People's Daily* in June 1998

- Enterprises should consider workers' living standards before making decisions on who should be made redundant. For example, they should not lay off both husband and wife from the same family.
- Local governments should encourage the rural labour force to find jobs within rural regions, and the extent of rural migration should be controlled.
- Every enterprise with redundant workers should set up a re-employment service centre (RSC) to distribute subsistence allowances and other benefits, as well as pensions and unemployment and medical insurance, for redundant workers.
- The re-employment centres should extend these benefits to redundant workers for no more than three years. The subsistence allowance should gradually be reduced over the three-year period, but to no lower than the level of unemployment benefit.
- Redundant workers should be encouraged to set up small businesses of their own. Those who do so should enjoy three years' exemption from taxes. Financial institutions should provide loans to fund these new businesses.
- Redundant workers, regardless of whether they are re-employed or not, should enjoy the same pension benefits and housing arrangements as they did when employed.
- Enterprises with vacancies should give employment preference to redundant workers, especially female workers.
- Redundant rural migrant workers are not eligible for any of these benefits.

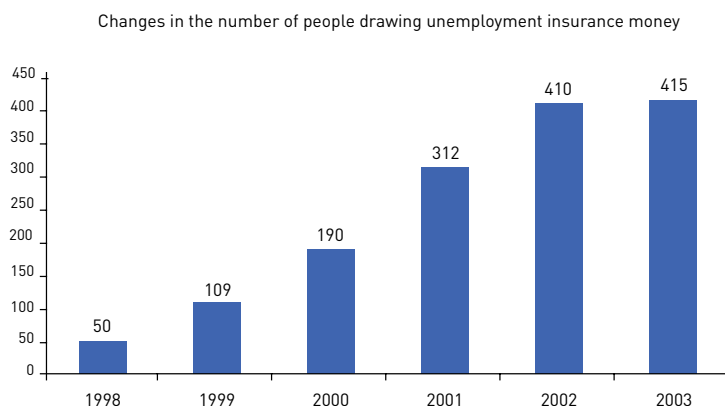
One of the policies adopted in 1998 was the establishment of RSCs as outlined in the State Council's document on retrenchment (see box 1). RSCs were basically a form of PES established in SOEs for laid-off workers to provide basic subsistence allowances, pay retirement and health insurance premiums on their behalf, and provide job brokerage and vocational training opportunities. Small business development support was provided for laid-off workers wishing to take up self-employment in the form of three-year tax breaks and start-up capital loans at discount interest rates. (Social insurance subsidies and three-year tax breaks were also given by Government to employers who employed laid-off workers.)

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These RSCs were typically located within the industrial units from which people had been laid off. People registered with the RSCs were not the same as the Xiangang or totally unemployed. The RSCs were closed in 2003; an important development at the same time was that social security benefits became more commonly available for many urban workers.

Figure 2 shows how the numbers of people drawing unemployment insurance payments increased from 1998 to 2003.

Figure 2: Numbers drawing unemployment insurance in China, 1998–2003



Source: Government White Papers
<http://www.china.org.cn/e-white/20040426/2.htm>

Evaluation of the responses

A recently published study of interventions aimed at laid-off workers (Bidani et al., 2009) has made available for the first time an independent evaluation of some of the programmes introduced by the Chinese Government. This study examined and evaluated training programmes for over 2,000 displaced and unemployed workers two years after the retrenchments in which they lost their jobs. In the two cities studied, Shenyang (regional capital of Liaoning) and Wuhan (regional capital of Hubei), a range of ALMPs were put in place and made available via the PES centres in the two regions.

They included:

- career guidance, employment counselling and job brokerage;
- training for new jobs (partly through the social partners), to improve the employability of unemployed workers;
- provision of subsidies and loans to enterprises and social partners as incentives to employ redundant workers;
- support for redundant workers to become self-employed;
- provision of support and information to enterprises;
- internships/work trials in companies of three to six months for redundant workers;
- development of community employment programmes and opportunities in the services sector (“tertiary industries”) for unemployed workers.

Both Liaoning and Hubai had unemployment rates above the national average. Between 1998 and 2000, 279,000 workers in Shenyang and 64,000 in Wuhan took part in training programmes. Placement rates after training were in the 60–70 per cent range for both cities.

In Shenyang, payment to trainers was performance based. Full fees were paid if the attendance did not drop below 80 per cent, the participants’ pass rate was 90 per cent or more and the placement into jobs rate was 70 per cent or more. Where placement rates fell below 70 per cent, a 10 per cent reduction in fees was imposed for each 10 per cent shortfall. Effectively, then, fee levels were based on trainer performance. However, experience in other countries has shown performance measures of this kind to be open to manipulation by the trainers, and in the case of Shenyang the quality of job placements was not apparently taken into account in assessing performance. In Shenyang, most training was of one month’s duration, and the quality of the training offered varied widely: in a number of training institutions only theoretical training was provided, with no practical element, and certification and standards were weak. In Wuhan training lasted on average for two or three months (one-month courses were not eligible for funding) and generally had a practical element.

The types of training on offer were more varied in Wuhan than in Shenyang. In Shenyang most training was undertaken by the PES itself, whereas in Wuhan the providers included a variety of institutions such as colleges, universities, and vocational education and training schools. The types of training provided in Wuhan, especially in programmes delivered by the private sector, seem to have been more connected to local demand for the skills imparted than was the case in Shenyang.

The study concludes, among other things, that in Shenyang workers who had undertaken training had similar rates of success in finding jobs to those who did not participate. In Wuhan, on the other hand, participation in training is estimated to have improved subsequent placement rates in contrast with a control group who did not take part in training.

Lessons learned

Among the lessons for policy-makers identified by research are that they “must adopt a critical approach to retraining [of displaced workers] and must recognise that expectations should be moderate. Unless training programmes are carefully designed and targeted, there are no guarantees that impacts will be positive” (OECD, 2006). Many international studies and a range of country experiences indicate that job counselling and guidance with job search, good labour market information and action planning through the mediation of PES are the most efficient and effective ALMPs in responding to worker displacement.

The evaluative study also identifies the following lessons:

- Diversification of training providers, for example to include a mix of non-profit and commercial enterprises, may be beneficial.
- Training should focus on local labour demand by including employers in training course planning.
- PES job-brokering services are the most important support service and increase the return on investment in training.
- Programmes should be carefully targeted at groups that are most likely to yield a positive net benefit.
- It may be useful to experiment with different financing schemes for training, including those that require some financial contribution from the trainee (as was the case in Wuhan).
- Programme evaluation such as that undertaken by Bidani et al. should become an intrinsic part of active labour market strategy in China. “Only through such rigorous evaluations can policy makers determine what works and for whom in supporting laid-off workers” (Bidani et al., 2009, p.15).

Lessons learned applied to the issue of migrant workers

Migrant workers are a major labour market phenomenon in China, posing a challenge to the Government to provide an effective policy response. According to the Rural Household Survey of the National Bureau of Statistics, the total number of migrant workers in China in 2006 was over 130 million, and a recent World Bank analysis (World Bank, 2008) indicates that migrant labour accounts for approximately one-third of the country's total urban employment. These migration flows are driven by income disparity between urban and rural workers – in 2005 average urban incomes were over three times the rural average; productivity increases in agriculture, which created a large pool of surplus rural labour; and a dynamic urban economy, which has created a demand for labour attracting supply from rural areas. Table 1 outlines the place of migrant workers in the urban labour force over the first years of the twenty-first century.

Table 1: Migrant workers in the Chinese urban labour force, 2000-2008

Year	Migrant workers (000)	Urban employment (000)	Proportion of migrants (%)
2000	78490	212740	36.9
2001	83990	239400	35.1
2002	104700	247800	42.3
2003	113900	256390	44.4
2004	118230	264760	44.7
2005	125780	273310	46.0
2006	132120	283100	46.7
2007	136490	293500	46.5
2008	140410	302100	46.5

Source: Du Yang, April, 2009. "Recent trends in the Chinese labour market and their impact on income inequality", PowerPoint presentation.

In the context of the 2008–9 economic crisis, however, nearly 1 million enterprises closed down and more than 20 million farmers-turned-migrant workers lost their urban jobs and returned to rural areas. In response to this development, in February 2009 the Government introduced a special vocational training programme for migrant workers which gives them equal access to government-provided training programmes (hitherto open only to urban workers) of three to six months or more in duration. This focus on duration confirms the lessons learned from the Wuhan and Shenyang experiences described above. This access to training should improve the prospects for migrant workers, enabling them to take advantage of the stimulus packages outlined above.

Migration has created social and economic issues that need to be addressed. These workers are typically less educated than their urban counterparts and, having had less access to training in the past (an inequality now being addressed, as set out above), suffer discrimination and occupy the lowest-level jobs which can also be the most dangerous (work-related fatalities are more common among migrant workers). Unpaid wages have also been an issue; this too is currently being addressed by the Government. Most migrant workers also lack other workers' rights, including social insurance: being outside the social insurance system, they are faced with fees for schooling and health care which urban workers routinely receive without cost. They also face housing problems. The Government is putting systems and programmes in place to address these issues.

The World Bank analysis points out that while many provincial and local governments have extended PES services and training programmes to cover migrant workers, there is still a need to increase investment in training and employment services and make them more effective. "Regional Governments in both sending and receiving areas need to develop capacity to meet the large demand among migrants and extend PES and other services to those remote areas" (World Bank, 2008, p. 3).

Conclusions

It is clear that China has had to respond to restructuring and realignment of its economy on an unprecedented scale, and to the resultant massive retrenchment. In doing so, it has succeeded in developing new institutional response structures (such as the PES) and new programmes from scratch in a relatively short time frame of 10–12 years. These innovations reflect many of the concepts outlined in the *Guide to worker displacement*. In the Chinese Government's own view it has also encouraged the development of an economy with diverse forms of ownership and has broadened access to employment. China has concentrated on mobilizing its labour resources and has actively developed labour-intensive industries whose products are in demand globally. In that context it has encouraged the development of private SMEs with good employment capacity: by 2008 this type of enterprise accounted for 80 per cent of new employment in urban areas. This massive job creation has allowed China to redeploy retrenched workers in the context of an expanding economy and the resultant expansion in the demand for labour.

2

Lessons have been learned from past retrenchments, and the recent approach to retraining displaced workers has benefited from the experience gained in contexts such as the cities of Shenyang and Wuhan, as described above. It is clear, however, that the issue of migrant workers presents particular challenges that will take time to fully resolve, particularly in the context of any further retrenchment.

CHAPTER 3

The Czech Republic: Retraining for new technology with hands-on experience

Summary

The Czech Republic has undergone massive industrial restructuring in the post-communist period. In this context, this case study describes the establishment and activities of a particular Retraining Centre for Precision Cutting located in Opava (RCPO), a town in the Moravian-Silesian region of the country. It focuses on a retraining programme for computerized numeric control (CNC) machine operators established to address high levels of unemployment and worker displacement in the district, which can be traced back to the effects of the post-1990 restructuring.

The Moravian-Silesian region was a centre of coal mining and heavy industry in Czechoslovakia, and after 1993 the Czech Republic. Restructuring resulted in the **challenge** of a huge increase in unemployment here, particularly among apprentices and other young people. A number of industrial zones were created using new investment incentives such as tax breaks and financial subsidies for new jobs created.

One **response** took the form of a public-private partnership, created in 2005 to bring together a precision engineering company, the Czech authorities and EU (European Union) funding with the goal of retraining displaced workers to meet local skills shortages. Specifically, there was a demand for CNC operators at a dynamic local company which produces highly engineered components for the automotive and aviation industries. A retraining centre to equip the unemployed with advanced CNC skills was established.

Curricula for the training were developed in collaboration with the German Qualifizierungszentrum Region Riesa GmbH and the Technology Centre Großenhain. The training consisted of 60 hours' theoretical work and 160 hours' practical work. The practical component included giving trainees real production experience through participation in the actual production of components for the StojCar company. This allowed them to get a feel for the real world of work while gaining new CNC skills in the retraining centre.

Post-training placement rates for participants were high at 85–90 per cent. **Lessons learned** included the proven feasibility of a public–private partnership approach as a labour adjustment measure. A combination of theoretical and practical elements added considerable value to the initiative and increased the employability of the trainees. The PES played a key role.

Background

The coal mining and heavy industry for which the Moravian–Silesian region was well known underwent severe contraction between 1993 (the year that saw the creation of the Czech Republic) and 2000. Sweeping plant closures resulted in a huge increase in unemployment in the region, from a base of 35,300 to 88,800 in a population of approximately 1.28 million. In response, the national and regional governments established a number of industrial zones and the Moravian–Silesian region created a number of new investment incentives such as tax breaks and financial subsidies for new jobs created. These measures supported the economic recovery of the region and produced high annual GDP growth rates, which rose from 9.6 per cent in 2003 to 10.1 per cent in 2007.

The Moravian–Silesian region was well placed to benefit from the economic boom that occurred in Central and Eastern Europe in the first decade of the century by virtue of its strategic location bordering on the Czech Republic, Poland and Slovakia. The regional government contributed by developing the necessary infrastructure. Moreover, labour costs were among the lowest in the Czech Republic and the industrial tradition of the region assured that a workforce was readily available.

Figure 3 : Map of the Czech Republic showing strategic location of the Moravian–Silesian region



Challenge

The restructuring process took time, and employment growth was low in the first years. Gradually it became evident that there was a mismatch between skills supply and demand, partly as a result of weakness in the vocational education and training system in the region.

A detailed analysis of the needs of the regional labour market prompted the decision to establish a retraining centre, in response to three factors in particular :

- high unemployment among workers made redundant during restructuring in the local industries;
- high unemployment among apprentices coming into the labour market; and
- a shortage of workers skilled in the new technologies being introduced by new industries.

The PES in Opava also established that apprentices were at great risk of high unemployment, mainly as a result of the skills mismatch.

Figure 4: Unemployment and job vacancies in the Moravian–Silesian region, 2000–2009



Source: Czech Statistical Office.

The Moravian–Silesian region and the neighbouring regions of Poland and Slovakia attracted new industries in the automobile and aviation sectors. Large parts of their production consisted of assembling components from international and local suppliers. This created good opportunities for new locally based technology companies and led to an increase in demand for a skilled workforce capable of using new technologies, especially CNC systems. The labour market survey indicated a significant shortage of CNC operators.

One example of a local company experiencing strong demand for CNC operators was StrojCar, which specialized in custom-made products which could only be produced by a highly qualified labour force. The Czech firms Škoda Auto a.s. and AERO Vodochody a.s., as well as Volkswagen AG in Germany and Stola S.p.A in Italy, were among its regular customers. The company needed workers who could operate precision engineering CNC machines to produce components predominantly used in the automobile and aircraft industries in the production of prototypes, precision production, and production of special materials.

Responses

Two consultancy companies (DCVISION s.r.o., Opava and RPIC-VIP s.r.o, Ostrava) and StrojCar drew on available EU funding to establish a retraining centre co-funded by the Czech Government – the RCPO – where workers would be trained to operate and programme new CNC cutting machines. The duration of the first project was 15 months, from May 2005 to July 2006.

Two target groups were chosen: unemployed graduate apprentices under 25 years of age who had not had a permanent job, and redundant workers from enterprises undergoing restructuring. The two companies identified the goals of the project at the outset, chief among them being to increase the employability of the two target groups.

The key stages and elements of the project were as follows :

- sourcing and adaptation of premises and equipment;
- choice and selection of course participants;
- design and delivery of retraining programmes;
- employment counselling;
- evaluation of the project.

The course curricula were developed in collaboration with the German Qualifizierungszentrum Region Riesa GmbH and the Technology Centre Großenhain. These two institutes provided professional advice and support based on many years of involvement in professional retraining centres in Germany. The training covered not only theoretical work but also practical production experience, involving trainees in actual production of components for the StojCar company. This allowed them to get a feel for the real world of work while gaining new CNC skills in the retraining centre.

Each training course had 18 participants and lasted three months. The course was structured as shown in table 2.

All participants who passed the final examination were awarded a certificate recognized by the Czech National Qualification Authority. They were then offered career counselling, including guidance in interview and job-search techniques, in order to improve their chances on the labour market. The project and its outputs were continuously monitored and evaluated. The original training courses of 18 participants each were positively evaluated and prompted further follow-on projects (RCPO I and II).

Table 2: Structure of the retraining course

Section	Modules	Duration
Introduction		8 training hours
Theoretical part (focused on basic competencies necessary to operate and programme CNC centres)	Theory and basics of metal cutting/processing	60 training hours
	Work with classical cutting centres	
	Motivation and work courses	
	Basics of operating industrial computers	
	Familiarization with the principles of NC and CNC machines	
	Operation of CNC machines (training simulator)	
	Elaboration of simple programmes for CNC machines	
	Programming of CNC centres with special software (only for selected course participants who wished to specialize in programming)	
	Basics of German or English vocabulary related to engineering	
	Final inspection of the quality of CNC production	
Practical part	Operation of classical cutting machines	160 training hours
	Milling and lathe CNC centres	
	Other computer-operated machines like drilling or electro-erosion machining tools	
	Measuring procedures with a computer-controlled coordinate measuring machine	
	Exercises focusing on technical documentation and processing clients' orders	

Source: Developed in collaboration with the German Qualifizierungszentrum Region Riesa GmbH and the Technology Centre Großenhain.

3

Costs and outcomes

The total costs for the first project amounted to €185,000, just over half of which (54 per cent) was covered by a contribution from the EU. The state budget of the Czech Republic provided 18 per cent co-funding, 23 per cent was covered by the ALMP budget of the PES, and 5 per cent came from other sources. In all, this first project retrained 61 people at a cost of €3,033 per participant.

The first follow-on project, RCPO I, lasted 24 months from 2006 to 2008. This cost €208,000 for 80 trainees (€2,600 per person), funded 75 per cent by resources from the EU Structural Funds and 25 per cent from the Czech state budget.

RCPO II had a higher per capita cost at €5,490 because it included the training of 12 trainers as well as 22 trainees. While 97 per cent of the funding for RCPO II came from public sources (EU Structural Funds 73 per cent, Czech state budget 24 per cent), the remaining 3 per cent was provided by the retraining centre itself.

A summary of the course outcomes is shown in table 3.

Table 3: Placement outcomes for participants in the retraining courses

	Project 1	RCPO I (students)	RCPO II (trainers)	RCPO II (students)
No. of participants	61	80	12	22
% of participants unemployed at outset	93	94	33	31.8
% of participants who completed training	92	95	100	91
% of participants who found jobs on completion	90	85	n.a	100

Source: DCVISION s.r.o., Opava and RPIC-VIP s.r.o., Ostrava.

3

Lessons learned

One of the key features of this project to retrain displaced workers was the public-private partnership which initiated the first retraining centre and showed that such an approach could work as a labour adjustment measure. The combination of theoretical and practical elements in the training, giving trainees the opportunity to practise their new skills on the job in a real workplace, added considerable value to the initiative and increased the employability of the trainees. The PES played a significant role in bringing key actors together to develop retraining initiatives which produced good placement results.

CHAPTER 4

Egypt : The «labour pool» approach in the textile industry

Summary

This case study describes the Egyptian Government's approach to restructuring in the textile industry. The industry had already been undergoing reform for some time when innovative approaches to ameliorating the employment effects were introduced in 2005. Key aspects of the new response included strong social partner involvement and an emphasis on joint effort. This case study assesses the "labour pool" approach and describes its characteristic features. These include the holistic package offered and in particular the scope for offering training vouchers to family members, thus extending the support for redundant workers directly to the wider family unit and the community.

The Egyptian textile industry employed 100,000 people in 2005 but was loss-making, inefficient and in need of modernization. Relatively high wages restricted profitability. The Government adopted a strategy of downsizing coupled with new investment in modern production equipment. To this end a new redundancy package was developed, co-funded by the Government and the EU. This package was carefully planned, with emphasis on providing sufficient time for the process and on gaining the agreement of the social partners to the model. Close cooperation between the industry's trade union and management was key to its success.

The project was overseen by a Labour Adjustment Committee (LAC) which comprised representatives of the Ministry of Investment, management and the Egyptian Social Fund for Development, the president of the trade union and shop stewards. A "labour pool" was established on an "employability centre" model similar to that described in Case Study 7 on the Netherlands below. Local labour pool advisory committees were also established.

The package on offer to workers included a pension; a lump sum that had to be either put on deposit in a bank or invested in an enterprise start-up; three guidance and counselling sessions; a training voucher; and access to other training options such as job-search techniques and job clubs. A unique feature of the package was that the training voucher could be assigned to a family member, if the worker did not want to use it personally. This had an interesting added supportive effect on workers' families.

Outcomes were good, with a low number of redundant workers remaining unemployed at the end of the process. Lessons learned included the importance of providing enough time both for the development of interventions and for their takeup by workers. The innovative use of visual materials for functionally illiterate workers proved to be a successful innovation. Group sessions followed up by three individual sessions reassured workers that the process was designed to give them positive help.

A strong emphasis on training encouraged both the redundant workers themselves and their family members to think in terms of gaining relevant skills for future employment. This family focus is in line with best practice outlined in the *Guide to worker displacement*. The requirement to invest the lump-sum payment, which thus provided a stream of income to bridge the gap between the previous wage level and the current pension entitlement, was a key factor in the success of the project. The process of coping with redundancy was eased by the tradition in the Egyptian public sector of having a second job.

Background

The Egyptian textile industry was the largest national public sector industry in 2005, with about 100,000 employees. Of these, it was estimated that about a third, or 30,000 workers, were surplus to requirements. The Egyptian Government was committed to restructuring and privatizing loss-making public sector industries. Working in the public sector was seen in Egypt, as in most countries, as a lifetime job providing a stable income and a secure pension. Wages and pensions were originally quite low, but had recently been growing, to the extent that in some cases they even surpassed those available in the private sector. In the textile industry this had come about in part as a result of the effective bargaining power of the trade union, but also because inflation had severely reduced the purchasing power of wages, so that increases seemed justifiable to most observers.

The public sector textile industry was therefore losing money partly as a result of a higher wage cost component in comparison to its international competitors (more than double the world average for similar industries). These losses inhibited investment in new technologies, impairing both efficiency and quality and thus making it more difficult to sell products at the right price to generate the profits needed for investment in those new technologies. Marketing was also weak.

Challenge

Any restructuring of the Egyptian public sector textile industry to make it more efficient would entail reductions in the number of workers, investment in new equipment and better marketing. That process started in the affiliated companies of the Cotton & Textile Industries Holding Co. in the 1990s. After completion of a first round of restructuring, in 2005 the EU offered to support the Government of Egypt with further restructuring and made €80 million available for a four-year restructuring programme. A detailed plan was jointly negotiated and the Government of Egypt took the lead.

The key elements of the programme were to :

- support privatization of factories ;
- reduce the excess real estate in possession of the Holding Company and affiliated mills ;
- make a human resources plan ;
- implement the “labour pool” approach to displaced workers ;
- launch a sector-wide restructuring strategy.

The main ministry involved was the Ministry of Investment, whose remit covers all public sector industries. Support for the human resources aspects of the restructuring was sourced from the Social Fund for Development. The support of the Trade Union for Spinning and Weaving was a critical factor in the success of the initiative.

Any change to public sector industries in Egypt is problematic, given that some cities depend entirely or substantially on these industries for the employment of their working population. Thus the process of restructuring and reducing numbers of employees had to be handled with care and organized in association with local communities. The Ministry of Investment and the management of the public sector textile industry accordingly adopted a gradual approach. From 1995 no new staff were hired, and an early retirement scheme offered an incentive to those with 19 years of service in the public sector industry in the form of a pre-pension allowance. Some 15,000 textile workers took up this offer between 1998 and 2002. Most of the workers who were made redundant retired, but a significant portion (2,000) started up or enlarged their own businesses or enhanced their incomes from second jobs. (Many workers in the public sector had a second source of income, mostly in the informal economy.)

Response

The early retirement scheme introduced in the late 1990s was expensive for the Government, with the pre-pension allowance offered after 19 years of contributions, instead of the normal pension offered after 30 years, putting a strain on the public sector pension scheme. In order to offset this cost in the 2005 initiative, all other costs (such as incentives, modernization of equipment and the costs of the labour pools) were financed from the EU in accordance with an agreement concluded that year. The 2005 project included investment in equipment, improvement of marketing and a reduction in the workforce of 25,000 employees aged over 50 years (45 for women) and 5,000 below these ages. Several factories were to be fully closed and assets sold to cover some costs of the project.

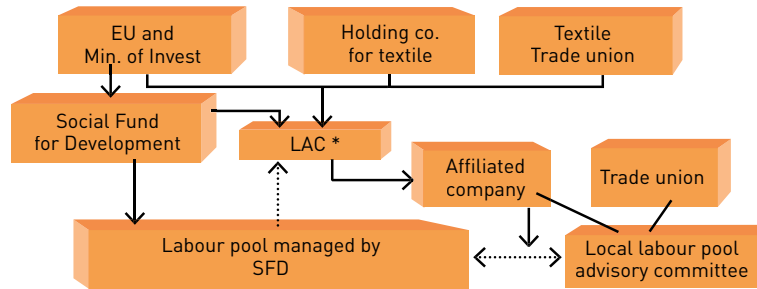
The labour pool approach

The labour pool approach was applied to assist younger redundant workers (men below 50 and women below 45 years). The labour pool was to be a separate organization, at arm's length from the textile industries, which would be responsible for all activities to support the 5,000 younger workers facing redundancy. The labour pools were managed by the Egyptian Social Fund for Development with a view to extending them to other public sector industries. The initiative was financially supported by the EU, which also provided consultancy to help with the management of the scheme.

In total, 14 local labour pools were established, covering 14 governorates. Each labour pool had the following tasks :

- to inform displaced workers about the early retirement scheme ;
- to support displaced workers in making well-informed decisions about their futures through individual counselling (three structured action-planning interviews) ;
- to support small business start-ups by appropriate referrals ; and
- to offer support for vocational, computer or language training to the redundant worker and members of his or her family.

Figure 5: Project organization of the labour pool system



* Labour Adjustment Committee

Source: Labour Pool Project report, 2007.

The redundant workers continued to be affiliated with the factories while they were engaged with the labour pool.

The project was overseen by a LAC, which had executive power over the project's organization and budget. The key players in the LAC were the Ministry of Investment, the management of the Holding Company, the managements of the affiliated companies/suppliers, the president of the Trade Union for Spinning and Weaving, a number of shop stewards and the Social Fund for Development. All these key players convened every month, in meetings arranged by the labour pool management, to make both strategic decisions, on matters such as transferring funds and defining compensation, and routine decisions, on matters such as applications for pre-pension payments and agreeing incentives for workers about to be made redundant.

The LAC proved to be very effective, not least because the frequency of its regular monthly meetings created a good understanding and a strong mutual commitment between the stakeholders, which encouraged flexibility and facilitated agreement by all parties to any changes in procedures, for example in the selection of eligible redundant workers and the amounts of compensation offered.

At each industrial location a mill advisory committee (MAC) was established, chaired by a representative of the central labour pool (managed by the Social Fund for Development), and consisting of representatives of the mill management, the local trade union and the local labour pool. The MAC also met monthly and presented its findings to the monthly meetings of the LAC as the decision-making body.

4

The labour pool system supported the redundant workers in three main ways :

1. By ensuring a reasonable income after departure from the textile industry through:
 - payment of a lump sum as incentive;
 - the requirement to invest the incentive in a source of income (bank deposit or own business) for the next three to five years.
2. By providing career guidance and job placement support, including:
 - making an individual action plan (IAP);
 - counselling over three individual sessions with a follow-up one year after leaving the industry;
 - monitoring at four and eight months after leaving the industry.
3. By supporting the acquisition of new skills through:
 - introduction to training in entrepreneurship or job seeking skills, or access to a job club;
 - extended training in business start-up procedures;
 - vocational training or general training linked to a new occupation for the redundant worker or family members.

The support was provided in the form of a number of group and individual activities, mostly carried out by the staff of the local labour pools.

The redundancy process

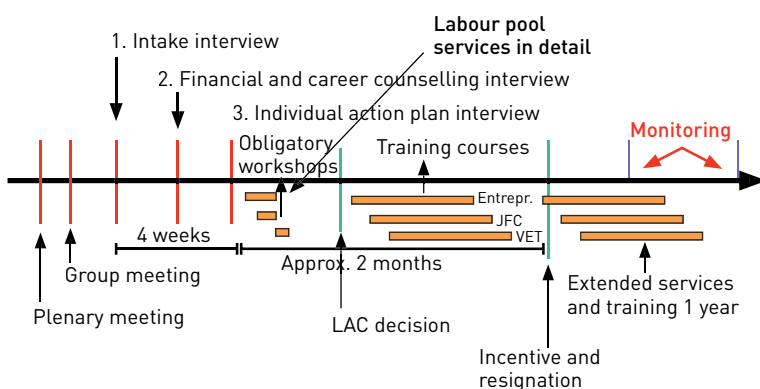
The successive stages of the redundancy process can be summarized as follows:

- briefing shop stewards to prepare them to inform workers of redundancies;
- general meetings (for c.50–80 redundant workers);
- group meetings (for c.30 redundant workers);
- three individual counselling sessions for each redundant worker, after a period of six weeks from the first announcement of the intention to make the worker redundant;
- obligatory participation in one of the three workshops (starting a business, job search or social skills activation);
- extended (voluntary) training on starting a business or participation in a job club;
- promotion of the training vouchers which would be offered to all redundant workers to buy training in the market for either themselves or their family members at any time in the following 15 months;
- organization of the actual individual redundancies and associated payments;
- follow-up monitoring for each worker after severance and on-demand counselling if required.

The average period from commencement of this process to the end of the severance procedure was ten weeks. The process is summarized diagrammatically in figure 6.

The process of informing workers began with plenary information sessions, each attended by between 50 and 80 of the workers to be made redundant, where they were addressed by representatives of management and trade unions. Smaller groups of 25–30 people were then invited by the labour pool for group meetings where the procedure was explained for a second time, leaflets were distributed and the workers could ask questions. These meetings were often difficult, but the prospect of compensation was attractive for workers. This emphasis on providing full and accurate information and winning confidence took a lot of effort but paid off during the following meetings with individual workers. The majority (70 per cent) of the redundant workers were functionally illiterate, and the information had to be given orally or visually to that group.

Figure 6: Redundancy procedure for workers under 50 (male) or 45 (female)



** Entrepr. = entrepreneurship, JFC = Job Finding Club, VET = vocational education and training
Source: Labour Pool Project report, 2007.

Each redundant worker was then offered three individual action-planning meetings to discuss and plan his or her future with a job counsellor from the local labour pool. The first meeting was designed to check that the information given in plenary and group meeting was understood by the individual. The second meeting was used to discuss the future financial situation of the worker, who might now be relying on a pension plus an income from a second job, business or savings. The third meeting was devoted to discussion of an IAP.

As part of the IAP, each redundant worker attended one of the three short workshops (two or three sessions of three hours) on business development, job search or adjusting to spare time at home. During that time the redundant workers were still officially employed in the mills where they had been working, and participation in these workshops was compulsory. Evaluations of the workshops were positive.

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Participants were then offered extended training on business development, participation in a job club or a training voucher. About 50 per cent of the redundant workers applied for the training vouchers. About 40 per cent of the vouchers were used, one-third by the redundant workers and two-thirds by family members. Most of the latter used this facility to improve their computer or language skills; a minority using the vouchers to acquire technical skills.

Finally, all redundant workers were followed up after they left the mills, enabling a detailed evaluation of interventions to be carried out.

Table 4: Types of training undertaken by redundant textile workers, 2009

Type of training	Person undertaking training		
	Redundant worker (%)	Daughter of redundant worker (%)	Son of redundant worker (%)
Computer	28	58	41
Language	3	20	15
Vocation	68	22	44

Source: Labour Pool Project Report, 2009.

Outcomes

In the period from July 2006 to September 2009 the labour pools assisted 6,350 redundant workers. The redundant workers received incentive payments of on average EGP 39,000 (equivalent to €6,000). This was increased to EGP 46,000 in 2009. Half of the participants applied for a training voucher to the value of EGP 1,500 (€200). The operational costs of the labour pools were on average €200 per client.

Table 5: Breakdown of redundant workers served by the labour pool project across five regions

Regions	Age and gender			
	Below 50 years (men) or 45 years (women)	Between 50 and 55 years (men) or 45 and 55 years (women)	Between 55 and 58 years (men and women)	Total
Cairo region	1 480	34	57	1571
Middle Egypt	475	288	184	947
Upper Egypt	0	347	318	665
Delta	880	922	588	2390
Alexandria	0	519	258	777
Total	2 835	2 110	1 405	6 350

Source: Labour Pool Project Report, 2009.

Sustainable income

In follow-up monitoring, more than 88 per cent of the redundant workers who took part in the labour pool project indicated eight months after leaving employment that their financial situation was sustainable or improved compared to the period when they were working in the textile mill.

The evaluations eight months after the redundancies showed that :

- 41 per cent of redundant workers had started a new business or expanded an existing one;
- 22 per cent had found a new job or started to work full-time in their former second job;
- 20 per cent had found casual day work in agriculture;
- 15 per cent (mostly women) had chosen to stay at home;
- 1 per cent were still looking for a job.

Lessons learned

A voluntary process takes time to plan and organize. The careful handling of the applications for redundancy, coupled with the individual approach by job counsellors, were key to success. Equally crucial was the provision of adequate time to prepare for the final severance, notwithstanding constant pressure on the project from both redundant workers and the LAC to shorten the engagement period.

The personal approach, following the group information sessions with one-to-one meetings, was highly appreciated by the participants. A strong emphasis on training encouraged redundant workers to learn new skills. Even though 70 per cent of the redundant workers were illiterate, compulsory training courses (with strong emphasis on visual communications) during the period when the workers were still employed by the mills proved to be a success. This was particularly so for the job club activities.

Involving the management and trade unions in the activities of the labour pool, both at the top level (in the LAC) and at the level of individual mills (in the MACs), had a very positive impact on the results.

Allowing the training voucher to be used either by the redundant worker or by a member of his or her family proved to be a great success: about 60 per cent of all the courses taken were attended by children of redundant workers.

The requirement to invest their lump-sum compensation payments in an income-generating bank deposit or business enterprise went a long way towards ensuring that the income gap between workers' pensions and their former earnings was more or less bridged.

The project and its approach were designed to suit Egyptian culture, which has a long tradition of public industries. Its focus on redundant workers who had at least 19 years of service, and thus were eligible for the public sector pension scheme, was an important factor in encouraging workers to accept a redundancy package which could be combined with a pension. The fact that many workers already had second jobs to generate some income also contributed to the success of the project.

CHAPTER 5

Germany: Short-time working and continuity of employment

Summary

This case study examines the use of short-time working (STW) schemes as a response to restructuring and worker displacement. STW has been used in many countries; Germany is perhaps one of the best examples of its successful application. Having used STW extensively in the post-communist eastern Länder from 1990 onwards, the German Government was able to deploy the system quickly during the recent economic crisis.

As an exporting economy, Germany was particularly vulnerable to economic shocks during the recent economic crisis. This created a major **challenge** for the Government. Having used STW during the integration of eastern Germany into the Federal Republic, the Government had wide experience of the usefulness or otherwise of STW and, most importantly, had systems in place for the administration of STW schemes. It was thus able to **respond** to the challenges by increasing STW activity quickly.

Timing is key to the successful application of STW. In the volatile supply and demand fluctuations of the automobile industry, for example, the ability to run down production at short notice and then ramp it up again quickly is a key competitive tool. Thus the effective use of STW in the German auto industry is attributable in part to its application in combination with a governmental initiative which offered a subsidy for the purchase of low-emission cars and the “scrappage” of older cars. This created the conditions for the retention of key skilled staff so that, having been reduced, production could quickly respond to the subsequent increased demand for low-emission cars.

It was important that administration of the scheme be straightforward, with a minimum of bureaucracy. With that in view, the administration of the STW scheme was given to the PES or Arbeitsagentur. In general, STW schemes were put in place promptly when required. The scheme was also made more attractive to companies by changes in the rules – for example, the extension of the permissible duration of government support for companies using STW from 6 to 24 months.

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STW has proved to be an important and successful labour adjustment tool in the particular conditions pertaining in Germany. One of the most important **lessons learned** is the critical significance of timing. As STW schemes tend to be most effective in the early phase of a downturn, and as it proved difficult in some countries to set them up quickly during the recent economic crisis, it may be useful for countries to keep a small but well-run STW scheme operating even in good times, so that it can be scaled up rapidly in when economic conditions deteriorate.

Background

The German economy's high level of dependence on manufacturing exports leaves it vulnerable to fluctuations in the world economy. In the recent recession, many export-oriented companies decided to cut back their operations, resulting in rising unemployment and a fall in the numbers of vacancies available in the electronics, engineering, metal and automobile industries.

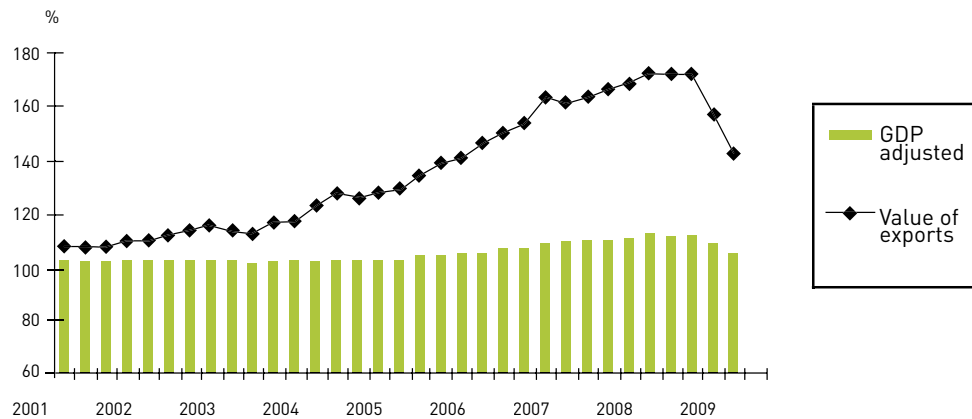
The German government reacted quickly to the economic downturn with a package of economic stimulus measures, chief of which was the STW scheme, known in German as Kurzarbeit. STW had been used extensively at the beginning of the 1990s in eastern Germany after unification, where it helped to mitigate mass redundancies during wholesale industrial restructuring. At its peak, almost 2 million people benefited from this scheme. Kurzarbeit helped to bridge the transformation process, enabling companies to maintain their workforces, preventing the loss of human capital and allowing them to gradually reduce their numbers of employees to adjust to new levels of activity. More recently, the STW scheme has also been successfully deployed in the construction sector, to minimize seasonal unemployment during the winter months.

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Challenges

During the recent economic crisis, Germany prioritized the maintenance of high employment rates and the preservation of skills and human capital. The downturn of the economy and of employment was seen as temporary, and indeed it proved to be so. The German labour market is characterized by strict labour protection and high dismissal costs. Long notice periods and high severance payments discourage short-term dismissal but also hinder new recruitment. Once employers decide to dismiss staff and incur dismissal costs they become very reluctant to employ a new workforce and invest in training when the economy recovers. Thus if workers were laid off in a downturn, when the economy began to strengthen again employers would not immediately respond by increasing employment and production, and Germany might be at risk of losing its competitive edge in world markets. With this scenario in mind, the German Government recognized that it needed to put maximum effort into encouraging companies to retain skilled workers.

Figure 7: German GDP and exports, 2001–2009



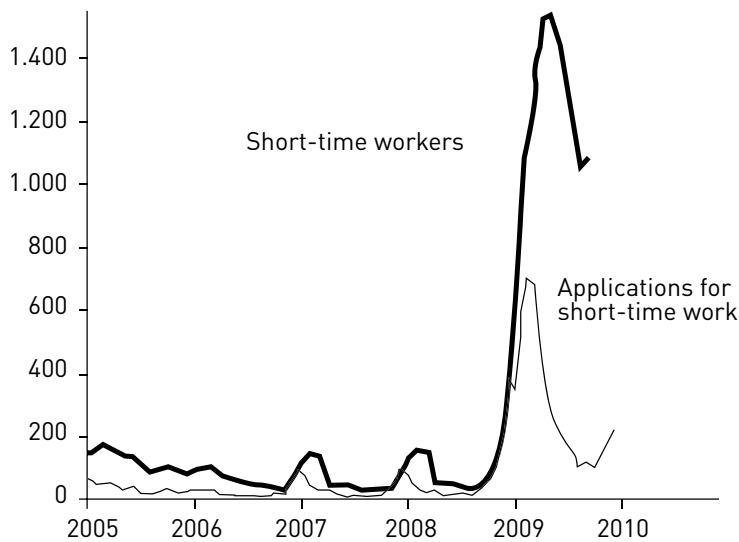
Source: German Federal Statistical Office.

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Response

The Government employed the STW (Kurzarbeit) approach as a key response to the economic crisis. The take-up of STW by employers was immediate and extensive, as shown in figure 8. This was possible because the STW scheme was well tried and tested and did not need to be reinvented to meet the challenges of the recession. It was a “ready to go” programme which was familiar and acceptable to all the social partners.

Figure 8: Short-time workers in Germany, in 1000s, 2005–2010



Source: Dr. Gerhard Bosch, 2010. Dismissing hours not workers – work-sharing in the economic crisis to avoid dismissals – European experiences, Institut Arbeit und Qualifikation.

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There are three variants of the STW scheme in Germany (see also Annex at the end of this case study):

- STW for cyclical reasons;
- transfer-oriented STW for workers whose jobs have already disappeared but whose employment is to be continued for the purpose of occupational reorientation and job placement;
- STW for seasonal reasons (introduced in 2007 for industries whose operations are interrupted by bad weather in the winter – mainly construction).

The cyclical variant is designed to compensate for a partial loss of work and wages, whereas in the other two variants work will have stopped completely – for only a few days or weeks in the case of seasonal STW, but indefinitely in the case of transfer-oriented STW.

For all three variants, the basic mechanism is the same, comprising the following elements.

Income support:

- The employee receives the actual net salary for the hours worked and 60 per cent or (if the employee has at least one child) 67 per cent of the usual net salary for the hours not worked.
- Short-time work benefits are not subject to income taxes, but they are taken into account when the income tax rate is calculated on the basis of the total amount earned per year.
- Short-time benefits can be suspended for 3, 6 or 12 weeks for any employee who refuses to take a job offered by the local PES (Arbeitsagentur).

Social security contributions:

- The amounts relating to the hours not worked are paid entirely by the employer, including the contribution to the health insurance system which is usually paid by the employee.
- In 2009–10 the local PES (Arbeitsagentur) reimbursed half of the employer's social security contributions.
- The Arbeitsagentur reimburses 100 per cent of social security contributions if the employee is involved in a training programme for more than 50 per cent of the days lost.

Training:

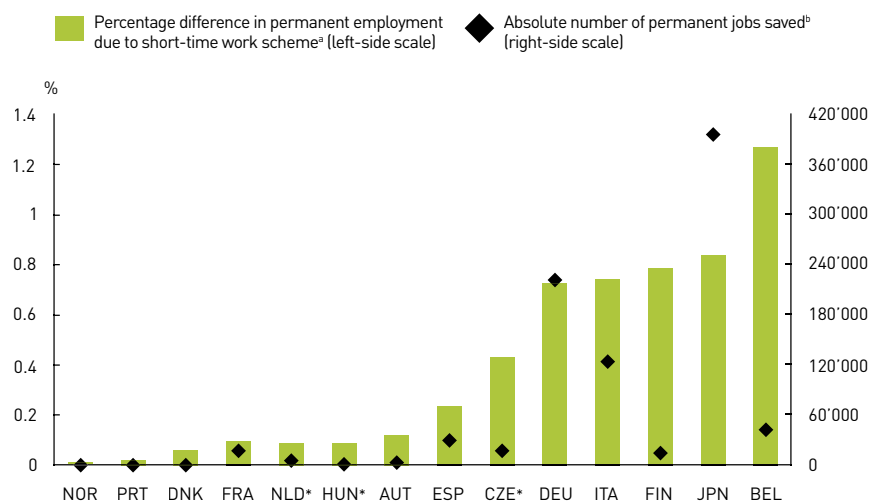
- The Arbeitsagentur reimburses between 25 and 80 per cent of the costs of training programmes designed to improve the qualifications of the employee. A training voucher is issued to the employee, who can then select a training provider. The Arbeitsagentur may pay 100 per cent of the training costs if the employee does not have a recognized qualification and the training programme will lead to a professional qualification.

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Specific preconditions for participation in the STW scheme are that the reduction of work should be temporary, should be substantial and should affect at least one-third of the workforce. This last condition was subsequently amended to make it possible for an enterprise to apply for STW benefits if less than one-third of employees suffered a reduction of 10 per cent of their gross salary. The employees concerned must be retained in work and be covered by social insurance. The duration of STW benefits was originally limited to six months; during the recession this was extended, potentially up to 24 months, though it has since been reduced to 18 months. After the expiry of this period there must be a gap of three months before another application for STW support can be made.

The important role played by STW in preserving jobs during the crisis is well known. New OECD estimates indicate that by 2009 Q3 over 200 000 jobs may have been saved as a result of STW . These estimates are somewhat smaller than the full-time equivalent of participation in short-time work (350 000), suggesting that STW ends up supporting some jobs that would have been maintained even in the absence of the subsidy. Yet, the implied rate of “deadweight” appears to be modest in comparison with that for other types of job subsidies. (OECD, 2010).

Figure 9: Proportional and absolute impact on permanent employment of STW schemes from the start of the crisis to the third quarter of 2009



* indicates countries that introduced a new short-time work scheme in response to the crisis. The estimated jobs impacts refer to period from which the short-time work scheme became operational until the end of 2009 Q3.
Source: OECD Employment Outlook 2010: Moving beyond the Jobs Crisis.

The procedure for application was designed to be simple, involving the minimum of bureaucracy. The Arbeitsagentur is responsible for quick and efficient processing of applications and payment of short-time work benefits, social security contributions and training costs. It is also responsible for monitoring the scheme closely.

In companies with works councils, the employer must consult that council regarding the introduction of STW, which can also be introduced on the initiative of the works council. Where there is no works council, the consent of the employees is necessary for the introduction of STW.

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STW in the German automobile industry

Domestic and export sales of cars fell significantly at the end of 2008 and into 2009 and stocks of unsold cars rose steeply. Both the automobile companies and their suppliers were affected, and both were quick to apply STW schemes. Table 6 illustrates the flexibility of the STW scheme, enabling management to introduce it and then cancel it within weeks as conditions change. In this instance companies were able to do this as the demand for fuel-efficient models picked up rapidly in the wake of tax breaks, introduced in 2009, on the purchase of fuel-efficient cars (to the value of €2,500 to those who scrapped an old car and bought a new low-emissions vehicle).

Table 6: Take-up of STW by automobile companies in Germany, 2009

Company	Month of application	No. of workers involved	Comments
BMW	January	26 000	1 of 4 plants returned to normal hours in May 2009
Daimler-Chrysler	January March	30 000 50 000	1 of 14 plants returned to normal hours in May 2009
Ford	February		Cancelled initial application
VW	February	60 000	Some plants returned to normal hours in May
Opel	February	2000	Plants returned to normal hours in March

Source: Nehem based on information from German Federal Statistical Office.

STW in the car-makers

These incentive payments for the purchase of low-emission cars contributed significantly to the effectiveness of STW, allowing companies to reduce production in their factories to sell off stockpiles and then to restart production lines for low-emission models. As demand picked up, factories were quickly switched from short time to overtime. It could be argued that the industry could have survived without the STW scheme; nevertheless, its application made the process of restructuring less chaotic, gave companies time to see how conditions would evolve, and enabled decisions to be made and implemented in a planned and controlled way without the disruption and uncertainty of mass layoffs and re-hires.

STW in an automobile supplier: The example of Stöber Antriebstechnik

Stöber Antriebstechnik GmbH & Co. KG is a family-run engineering firm with its headquarters in Pforzheim, Baden-Württemberg, and branches throughout Europe, in China and in the United States. Its 600 employees produce and develop gear units, electric motors, electric drives and software. In January 2009 sales dropped to about half of their level a year earlier.

Stöber had previously used Kurzarbeit for a period of four months in 2002. In 2008–09 the management tried to postpone a return to STW for as long as possible, but in January 2009 began to consider its reintroduction seriously. Before resorting to STW, the company took the prescribed preliminary measures, such as attempts to optimize production and the elimination of overtime. Despite these efforts, by the end of that month there was a broad consensus among the stakeholders that STW should be applied again, especially as many other companies in the region had already done so, and the company applied to the Arbeitsagentur for participation in the STW scheme. It was agreed to cut working hours by 20 per cent, using STW. This would mean a 6 per cent decrease in wages, which was accepted by the trade unions.

Stöber's decision to reintroduce STW was motivated by both emotional and economic factors. As a family-run business, it felt a moral obligation to keep all its employees in work. Only one year earlier, the company had experienced a shortage of qualified workers and overtime work, including Saturday working, was a regular feature. The company was thus well aware of the need for experienced employees, and although the labour costs were still significant during the period of Kurzarbeit, it decided to stick to the principle of retaining its skilled and experienced personnel for as long as possible. Eventually the company was able to resume full-time production without the loss of these key employees.

Lessons learned

According to the OECD, STW in Germany became more attractive to the social partners during the recent crisis because of enhancements to the STW scheme. These included the temporary extension of the maximum duration of STW from 6 to 24 months (now reduced to 18 months); the introduction of subsidized training; and the extension of coverage to temporary agency workers. Early indications suggest that the role of the latter two amendments may have been modest: for example, OECD figures suggest that under 10 per cent of employees on Kurzarbeit participated in training, despite efforts to make this option more attractive³.

This low take-up rate may be partly attributable to the fact that training was provided externally via the voucher system. Combining variable work schedules with training delivered outside the company may not have been easy to organize. Evidence from across the OECD also “suggests that the positive impact of short-time work schemes was limited to permanent workers. This implies that short-time work has tended to further increase labour market segmentation between workers in regular jobs and workers in temporary jobs” (OECD, 2010, p. 11.).

The widespread resort to STW schemes offers useful insights into their optimal use over the business cycle. In particular, the take-up rate varied significantly across countries, being much higher in those countries that already had such a scheme in place before the crisis than in those that introduced it for the first time during the downturn. Timing was critical, as STW schemes tend to be most effective in the early phase of a downturn and it proved difficult in some countries to set them up quickly enough to be fully effective. The OECD (2010) suggests that, “in light of these problems, an important question is whether it would be appropriate to keep a small, but well-run STW scheme even in good times, which can be scaled up rapidly in bad times, partly by temporarily changing the rules to encourage higher participation”.

³OECD, 2010, summary: <http://www.oecd.org/dataoecd/14/51/45603327.pdf>.

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Annex
Table 7: Overview of three variants of STW applied in Germany

Feature of system	Short-time for cyclical reasons	Transfer short-time work	Seasonal short-time work
Applicable period	Maximum 24 months (now 18 months)	Maximum 12 months	December to March
Company	Any, at least one employee	Enterprises undergoing restructuring	Construction sector
Pre-conditions	Severe temporary reduction of work due to a general economic downturn or unavoidable event	Permanent reduction of work; the employee must be employed after the restructuring finishes	Reduction of work due to climatic conditions or unavoidable event
Short-time work benefits	60% or (with at least one child) 67% of lost income	60% or (with at least one child) 67% of lost income	60% or (with at least one child) 67% of lost income
Social security contributions	Employer pays all social security contributions, but receives reimbursement of 50%, or 100% in case of employee training	Employer pays all social security contributions	Employer pays all social security contributions
Excluded employees	Those who do not contribute to the social security system (e.g. pensioners, casual employees earning less than €400 per week)	Those who do not contribute to the social security system (e.g. pensioners, casual employees earning less than €400 per week)	Those who do not contribute to the social security system (e.g. pensioners, casual employees earning less than €400 per week)

CHAPTER 6

Mexico: Short-time working in a collaborative approach to worker displacement

Summary

This case study describes past and recent approaches to worker displacement in Mexico, in particular job preservation through short-time working (STW), training and employer subsidies. The importance of trade unions in collaboratively finding solutions to worker displacement is discussed. An innovative STW scheme (the “4×3” initiative) is described.

The new open labour market policy developed by Mexico after it abandoned protectionism in the 1980s included ALMPs such as the training of workers displaced as a result of industrial restructuring. The Government has recently launched a national strategy designed to stimulate the growth of a competitive economy that creates jobs, fosters equal opportunity and achieves environmental sustainability. Towards the first of these ends it seeks to promote policies and create conditions in the labour market that will stimulate the creation of high-quality jobs in the formal economy.

The main channel for publicly funded retraining programmes in response to the **challenge** posed by worker displacement is the PES, and in particular the BÉCATE⁴ (previously SICAT) programme which, where appropriate, engages with firms when redundancies are announced. Such occupational training initiatives have been a central feature of workforce development in Mexico. Training provision is relatively well organized and has in the past received extensive support from the Inter-American Development Bank (IDB). BÉCATE provides training for both the unemployed and the underemployed, and includes on-site training for up to three months in parallel with income support. The employer provides the on-site training and has the opportunity to assess whether it wishes to employ the job seeker at the end of the training and probation period.

⁴Bécas a la Capacitación para el Trabajo (job training grants).

The **responses** to recent retrenchment have been informed by past experience and in particular the use of the BÉCATE programme and its predecessors. These training programmes were used in the case of the proposed layoffs in Volkswagen's Puebla plant in 2003. The Mexican experience provides a good example of the development of a consensual social partnership approach to retrenchment in the context of a changed political reality since 2000. The use of a training programme to provide income support to short-time workers was innovative for the time and provided the potential additional benefit of having upskilled workers available when the crisis passed.

Background

In the 1980s Mexico embarked on a process of liberalization, deregulation and privatization – a new era in which growth would be led by exports and by the private sector. The Mexican labour market has reflected these changes and, like all open economies, is affected from time to time by global shocks. The Government has responded to the world economic crisis of 2008–09 with liquidity measures, lower interest rates, foreign currency interventions and a fiscal stimulus. The effects of the global recession have fallen mainly on the tourism and manufacturing sectors in the border states. Mexico has strong manufacturing and supply chain links with the US automotive industry, and as those companies hit bad times the impact was felt by their suppliers: the consequent production cuts in Mexico created challenges for labour market policy. Recent responses to downsizing have been informed by past experiences of retrenchment.

The primary goals of the Government's general strategy, as set out in the National Development Plan for 2007–13, include stimulating the growth of a competitive economy that creates jobs, fosters equal opportunity and achieves environmental sustainability. The priorities in the first area of activity are investment in physical capital, enhancement of individual capabilities and increased productivity growth, all towards the end of creating conditions in the labour market that will stimulate the creation of high-quality jobs in the formal economy (Government of Mexico, 2007, pp. 29–55).

Institutional framework

After protectionism was abandoned in the 1980s a new open labour market policy was developed that included active labour market initiatives such as the training of workers displaced as a result of industrial restructuring. Over the first decade of the century, the thrust of labour market policy has been to:

- expand training and employment programme for the underemployed and unemployed;
- provide incentives for companies to invest more in on-the-job training;
- reduce the cost of workforce mobility and facilitate its adaptation to the labour market;
- expand programme to promote the competitiveness of more companies and their workers;
- promote cooperation between employers and employees on occupational health and productivity (IDB, 2003).

The PES, which has a key role in the delivery of labour market policy, was established in 1978 along the lines of the ILO model⁵, to promote placement of job seekers, encourage retraining and develop labour market information. In 1992 executive boards at state level were created for the PES, to support and oversee the operation of the employment offices. These boards, composed of representatives of business associations and firms, training institutions, state and federal government agencies, and labour unions, in turn form part of the State Councils for Productivity and Competitiveness, which seek to coordinate labour market policy between state and federal governments.

The PES is organized around some 127 local offices and 33 larger one-stop shops, and in 2010 had a staff of approximately 2,730. It provides a variety of services for both job seekers and employers, and in recent years has been making more use of information and communications technology – for example, as well as organizing traditional job fairs, it has created a national jobs web portal with “virtual job fairs”, introduced self-service kiosks and established a national jobs call centre for both job seekers and employers. The PES also plays an important role in relation to international worker mobility, particularly through bilateral programmes with Canada and Spain. It also supports workers repatriated from the United States. The PES is the main conduit for publicly funded retraining programmes, in particular BÉCATE, and under the direction of the Ministry of Labour (STPS) engages where appropriate with firms when redundancies are announced. It has made extensive use of training vouchers in recent years under the BÉCATE programme.

⁵ILO Employment Service Convention, 1948 (No. 88).

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Training provision in Mexico is relatively well organized, and has received extensive support from the IDB. The Programme to Support Training (Programa de Apoyo a la Capacitación or PAC) subsidizes the cost of hiring instructors for enterprises and provides local trainers whose areas of competence matches firms' needs. Evaluations have indicated that firms participating in the programme increase their own investment in training, have higher productivity, experience less "churning" of staff and display more efficient production techniques. Among other things, BÉCATE provides financial support to firms who wish to upskill their workforce and to respond to technological change. The training may be provided by private institutions; results from using such providers have been positive (OECD, 2007). BÉCATE has also had a positive impact on participants' incomes and employment prospects in medium to large firms. However, those in the large informal economy have no access to training.

In-service training

BÉCATE also supports on-site training for the unemployed and underemployed for up to three months, accompanied by income support (IDB, 2003). The PES identifies employers willing to accept job seekers and assigns them to the company for the training period. The employer provides the training on-site and has the opportunity to decide whether it wishes to employ the job seeker at the end of the training and probation period. The great majority (80 per cent) of training grants are allocated for in-service training for the underemployed and unemployed in firms of all sizes ranging from micro-enterprises through small and medium-sized businesses to large companies. The participants receive income support grants, health insurance, and expenses to cover travel and child care. The programme covers the cost of the grants, and the cost of training is co-funded by the firms. Companies that take in job seekers assigned by the PES are obliged to hire only 70 per cent of the people they train. However, experience shows that up to 93 per cent of the job seekers have been hired by participating companies.

In this type of in-service training for the unemployed, “the combined training instrument has produced the highest rates of job placement and has had the advantage of increasing unemployed workers’ share of the total number of training grants. A key challenge is to focus the programme on achieving the best mix of impact and coverage, ensuring that the grants are used for placement in high-quality jobs” (IDB, 2008, p. 7).

Classroom training

This form of training is targeted at the underemployed and unemployed with previous work experience who need to improve their skills to find new jobs. It is also used from time to time to meet the needs of workers about to lose their jobs. Short classroom-based courses may be suitable especially for new entrants to the labour market, for example to provide them with job-search skills (IDB, 2004). Longer courses are required for displaced skilled workers who require upskilling to meet the challenges of new technological changes. Grants for this form of training cover the costs of health insurance, travel and other associated expenses as well as the cost of the training itself. The use of vouchers has been introduced to replace agreements with public training institutions, where appropriate and possible. When the employment service counsellor and the job seeker agree on the type of training required, a voucher is issued enabling the job seeker to enrol in one or more courses (up to a total duration of six months) offered by nearby institutions accredited by the PES. Self-employment projects are also eligible for financing: here the funding covers the cost of tools and other materials.

There are, however, inequalities in the distribution of occupational training (OECD, 2007). Only 1.5 per cent of those on the lowest incomes (who comprise 10 per cent of the population) have attended any kind of training programme, while the participation rate for the wealthiest 10 per cent of the population is 32 per cent. The lower participation of the poorest reflects in part their involvement in the informal economy where, as noted mentioned above, organized training does not feature.

Challenges

The dramatic downturn in manufacturing industry in 2008 hit Mexico's automotive sector particularly hard. The automotive industry is particularly vulnerable to economic shocks, and is also one of the country's more important industries in respect of job creation. From a high point in November 2007, employment in the automobile industry fell by 27 per cent in the six months to May 2008. This was a much greater percentage fall than that experienced across the economy as a whole.

Responses

In response to this sharp downturn, the Government introduced a support package for exporting industries, which included a wage support scheme to avert redundancies. This "Employment Preservation Programme", financed to the tune of MXN 2 billion, subsidizes wages during production stoppages. It is targeted at the automotive plants, companies that produce auto parts, and the electronics and electrical industries. Initially, any company wishing to participate had to ensure that its tax payments and social insurance contributions were up to date. Subsidies are allocated on a bi-monthly basis, based on falls in audited sales: the reduction of the payroll due to production stoppages should not exceed in value a third of the expected loss in monetary value of sales. Take-up was slow at first as the companies could not fulfil all the required conditions straight away. Several modifications were subsequently made to the rules, including the abolition of the requirement for up-to-date tax and social insurance compliance.

Other measures providing general support to the labour market included the extension of the Temporary Employment Programme. Under the programme, unemployed workers receive 99 per cent of the minimum wage while working on community-based projects in areas such as health, education, tourism and the environment. The length of time a person can stay on the scheme was extended from four to six months, and the overall total budget for the programme was increased with a view to creating 250,000 temporary work opportunities. There was also a new provision to reduce from five to three years the qualifying period in employment before newly unemployed workers could withdraw a portion of their retirement fund. In that context it should be noted that while employers in the formal economy are required to make severance payments to laid-off workers, weekly state-funded unemployment benefit payments are not available in Mexico. This situation, alongside estimates that the informal economy accounts for 45–50 per cent of the country's total economic activity, suggests that resort to the informal economy functions as a survival strategy in the absence of unemployment benefits (OECD, 2008).

The PES also provides extra support to companies to avert dismissals using BÉCATE, as described above. Instead of dismissing workers, companies are encouraged to consider reducing working hours and lowering wages proportionally, and funds for training workers in the downtime are provided to workers on short time. Such training also attracts a training allowance for the participants.

Past responses

Retrenchment, related to the vagaries of the world economy (and in particular the US economy) has been a common phenomenon in the past in Mexico, and the STPS has accordingly developed response mechanisms. The responses to the current retrenchment set out above have been informed by that past experience and in particular by the use of the BÉCATE programme and its predecessors (SICAT and PROBÉCAT). These training programmes were used in the case of the proposed layoffs in Volkswagen's Puebla plant in 2003, when the company announced a 20 per cent reduction in production over the following 18 months owing to reduced demand for their cars in the United States. In the face of a threat to nearly 2,000 jobs, the main trade union at the plant (SITIAVW – Sindicato Independiente de Trabajadores de la Industria Automotriz, Similas y Conexos, Volkswagen-México) proposed a solution in collaboration with the STPS. Local community groups do not seem to have been involved in the development of this solution.

The proposal was to allow the affected workers to go on short time, effectively a four-day week. Wages would be adjusted downwards to take the reduced hours into account, and the workers involved would have access to training programmes provided through the PES using local trainers and paid for with training vouchers. While on these programmes the workers would receive a training allowance which would compensate in part for the reduction in wages associated with the STW. The factory had hitherto operated over five days, with days six and seven as non-working days. The workers facing layoff would now work four days, with the fifth day on Friday dedicated to training under the BÉCATE scheme. This new division of the week into four working days and three non-working days led to the scheme becoming known as the "4×3" initiative. The scheme operated for a number of months in 2003–04, and at the end of the period most jobs were preserved. However, no evaluations of long-term outcomes are available.

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Lessons learned

The 4×3 approach to conflict resolution and job preservation represented a move away from confrontational labour relations to a collaborative model in which the union, the employer and Government worked as social partners to resolve an industrial relations issue. This occurred in the context of a new political reality effected by the change of government in 2001. The intervention worked in the context of VW, but it was not clear whether it could be replicated in other firms. However, the recent approaches to retrenchment outlined above contain key elements of the 4×3 programme in the combination of a shorter working week with training provision to prevent redundancies.

The lack of evaluative data on the 4×3 scheme and other ALMPs created an impetus towards a more evaluative approach to programme outcomes. In line with the mandate of the Mexican Congress and under agreement with the IDB, the STPS carried out annual evaluations of the employment support programme and the training support programme (IDB, 2008). The training grants programme BÉCATE (which provided support for training in the Volkswagen case discussed above) received the most rigorous evaluation, which compared the outcomes of the combined training (carried out on-site, and so providing not only training but also job experience and contact with the working world) with a control group who received no training. The comparison showed that the placement rate for participants in the combined training is 6–10 percentage points higher than that for the control group. The impact on the rate of subsequent employment in the formal sector was also significant as well (up by 11–20 per cent).

An impact evaluation of the PES, which is a key player in retrenchment events, indicated that individuals who obtain a job through the job bank, Chambatel, receive a higher monthly income and work more hours per week than those in the control group. The web portal, the Observatorio Laboral (Employment Observatory), which provides up to date information on occupational and educational options, has become one of the federal Government's most frequently consulted on-line public services (with 488,000 visits in 2006). The job placement rates for the employment support programme as a whole saw no substantial change, which can be explained at least in part by the sluggish economy and low numbers of high-quality jobs created.

The lessons learned from the operation of ALMPs led to the following recommendations, among others (IDB, 2008):

- Simplify procedures, increase the number of job counsellors at the PES, and train them to offer improved counselling to job seekers and better service to companies. A larger, more professional staff of job counsellors would ensure that high-quality jobs are pursued more proactively, with services focused on the most dynamic economic sectors and geographical areas. These changes would enable the PES's work to have a greater impact and would ensure that placements are monitored to verify job quality.
- Channel more resources into on-site training grants aimed at job placement and into financial assistance for job seekers (through a financial support system for job seekers and a formal employment programme), because evaluations of these schemes report good rates of job placement and higher-quality jobs.

Conclusions

The Mexican experience provides a good example of the development of a consensual social partnership approach to retrenchment in the context of a changed political situation after 2000 characterized by pursuit of a more right-of-centre, liberal, free-market approach to labour relations. The use of a training programme to provide income support to short-time workers was innovative and provided the potential additional benefit of making more upskilled workers available when the crisis passed. The success of such an approach depends in part on the availability of high-quality trainers who can provide industry-specific training. The combination of STW and training maintains added value and ultimately benefits both the worker, in terms of a possible increase in earnings, and the company, in terms of productivity gains from the workforce.

CHAPTER 7

The Netherlands : A suite of innovative approaches

Summary

This case study illustrates a number of innovative approaches to worker displacement. These include mobility centres, “work to work” solutions, short-time working (STW) with associated part-time unemployment benefit payments, and accreditation of prior learning (APL) as a means to assist workers facing redundancy.

Levels of unemployment in the Netherlands have been among the lowest in the EU since the turn of the century. The country enjoys a strong tradition of social dialogue that facilitates resolution of labour market adjustment issues. Nationally and at sectoral level, a tripartite structure provides a framework for dialogue. Every company employing more than 50 people maintains a works council, which must be consulted on any question relating to a number of areas of common concern, including retrenchment and worker displacement.

A number of well-established tools to deal with worker displacement already existed before the economic crisis of 2008–09. These included early retirement, long-term income compensation, and a package of ALMPs such as career orientation, continuing training, APL, internships and support mechanisms available to redundant workers to maintain their employability. The **challenge** of the recent economic crisis has seen the introduction of new tools and approaches.

These new tools and **responses** included a “crisis pact” between the social partners and Government. This pact included an action plan for youth employment; regional mobility centres; training; and special support for temporary workers. In order to maintain skilled workers in employment, a new STW scheme coupled with part-time unemployment benefit covering up to 50 per cent of working hours was also introduced. The action plan for youth employment included three-month traineeships for school leavers, with follow-up work contracts in certain sectors, and the offer of an additional year for pupils in vocational education and training to enable them to gain additional competencies identified to be in short supply in the labour market.

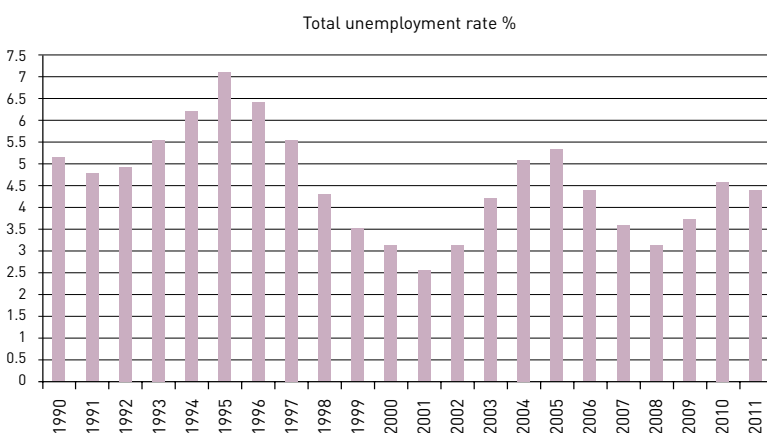
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Restructuring at two sites of the Philips Company is described. Outcomes were significantly different between the two sites, and reasons for this are examined. **Lessons learned** include the importance of good worker–management relations, trust and social dialogue when dealing with worker displacement. Trust and transparency seem to be essential factors in making full use of the available infrastructure for anticipation of worker displacement in the Netherlands, the key elements of which are a social plan, the commitment of workers’ representatives, the existence of a regional mobility centre, and a network of contacts including among others employers and NGOs.

Background

The Dutch economy is open, highly competitive and successful, with levels of unemployment among the lowest in the EU for the past decade, remaining below 6.5 per cent since 1996 despite substantial economic restructuring. Even during the recent economic crisis, increases in unemployment have tended to be lower than in other EU countries. The economy is open, highly competitive and successful, and employment rates are high, standing at 71 per cent for women and 82 per cent for men in 2009.

Figure 10: Unemployment in the Netherlands, 1990–2010



Source: Eurostat, 2010.

A strong economy and a decade of low unemployment put the Netherlands in a good position to deal with the recent economic crisis. The Netherlands has well-established structures to deal with worker displacement in an economy which is open and dynamic, as well as a strong tradition of social dialogue which supports resolution of labour market adjustment issues. Nationally and at sectoral level, a tripartite structure provides a framework for dialogue, and most workers are subject to collective labour agreements, which are usually mandatory at sectoral and industry level. For all companies of more than 50 employees a works council is in place, and this must be consulted about matters of common concern, including retrenchment and/or worker displacement.

Since the 1990s, the outcomes of redundancies in large companies and in some industry sectors in the Netherlands have been regulated by generic “social plans” (ARITAKE-WILD, 2007). Although not necessarily part of a collective agreement, the social plan is negotiated between employers and trade unions and is considered a contract, similar to a collective agreement.

A social plan provides for redeployment or job mobility, an ongoing guarantee of benefits additional to unemployment benefits or to lower wages earned in a new job, and compensatory payments for those who are prepared to leave their jobs. These plans are subject to certain legal constraints. Under the regulations on “apparently unreasonable dismissal” (kennelijk onredelijk ontslag) in the Dutch Civil Code (Burgerlijk Wetboek), district court judges must determine whether the financial compensation offered in the social plan is correct in relation to the circumstances of the dismissal, according to the levels of compensation payments established by law. The same rules apply to dissolution of the employment contract. In larger companies, the inclusion of anticipatory measures in social plans has become more important in recent years.

The agreement of the works council is also necessary for the implementation of “qualitative restructuring” proposals such as changes to occupational profiles, skill requirements, working conditions and the organization of working life. Since March 1998 the list of decisions on which consultation of works councils is compulsory has been expanded to include the introduction of new technology and the provision of security systems, for example in banks. If the employer wishes to overrule a decision taken with the works council’s agreement, the matter is first taken to a mediation committee. If the mediation fails the employer can go to court, which may rule in favour of either side.

Institutional framework

The Netherlands PES is a key player in the provision of support for displaced workers. In common with many EU PESs, it has gone through a series of reforms over the past 10–15 years. In January 2009 UWV (the network of unemployment benefit payment centres) and CWI (the Centre for Work and Income) merged. UWV and CWI were both involved in helping people find work and had already been cooperating closely in this area. All activities focused on employment of job seekers are now the responsibility of UWV WERKbedrijf, which provides a “one-stop shop” for job seekers and offers access to employment advisers.

The merger of UWV and CWI reduced the number of contact points from 127 to 100 (located within or alongside municipal offices). Thirty of them have been expanded to form “plus-offices” that can offer a wider package of services. Each of the plus-offices will also be connected with a “mobility centre” providing job-to-job mobility services, and with a “Work and Learning Services Desk” (Leer-Werk Loketten). The network of plus-offices has been established on a regional basis, covering the whole country, as part of a wider regionalization of ALMP, within which the municipalities have been given a leading role.

Challenges

In 2009 it was predicted that unemployment could increase to 8 per cent in 2010, which would have been a huge increase from the 3.1 per cent rate in 2008. The prediction was later revised down to 6.5 per cent, and as it turned out unemployment increased only to the lower levels of 3.8 per cent in 2009 and 4.5 per cent in 2010 (Eurostat, 2010). But this still meant an increase of 1.4 percentage points over 2008, indicating a degree of retrenchment that needed to be addressed.

Responses

A number of well-established tools to deal with worker displacement already existed: early retirement, long-term income compensation, and a package of ALMPs such as career orientation, continued training, APL, internships, and mechanisms to help redundant workers maintain their employability. Early retirement is now used less and there is an emphasis on the “work to work” approach, which includes employability building, APL and career orientation. For young people, the focus is on offering school leavers continuing training or a trainee place with an employer, and at regional level the emphasis is on comprehensive stakeholder involvement with the aim of retaining redundant skilled employees within the sector and preventing future shortages of professionals through temporary measures.

In specific response to the recent crisis, new initiatives were developed in 2009⁶. The “crisis pact” between the social partners and Government built upon the existing tradition of social dialogue, laying the foundations for local and sectoral agreements by setting out common objectives. These included three-month traineeships and follow-up work contracts for school leavers; the establishment of regional mobility centres in the context of the reformed PES; sectoral training and mobility funding; and provision for temporary workers and other potentially vulnerable workers.

⁶These are described in detail in Sprenger (2010), on which this case study draws.

An action plan for youth employment was established: in addition to traineeships for school leavers and follow-up employment contracts, this included provision for pupils in technical and vocational education to study for an extra year to gain competencies identified as in short supply in the labour market. Thirty-three regional mobility centres were established, and a part-time unemployment benefit provision was established to facilitate STW in industries affected by the economic downturn (on a pattern similar to the German model described in Case Study 5 above). Support was provided to cover up to 50 per cent of normal working time, subject to works council agreement. In the 12 months from April 2009, 70,000 people took advantage of the part-time benefit scheme; by July 2010 35,000 had left the scheme, 90 per cent of whom retained their jobs.

Past and present responses contrasted

The restructuring undertaken at NXP in Nijmegen (see Sprenger, 2010) is an example of the complicated process of combining the anticipation and management of restructuring. NXP Nijmegen was originally owned by Philips and made semiconductors for the automobile and electronics industries and mobile phone producers. It was sold to a private equity group in 2006. The market collapse in 2008 precipitated restructuring and consequent worker displacement. In line with the crisis pact approach outlined above, unions and management came together to agree a social plan. The company agreed to set up mobility centres for redundant workers and to retrain other workers. However, the senior management left the company in some doubt as to its continued commitment, and there was a lack of information as to the future direction of the company.

A new management team undertook to be more proactive and to provide some clarity about future plans. The partners in the mobility centre (PES, knowledge centres, local and provincial communities, educational institutes and their supporters, temporary employment agencies, career centres and re-integration companies) decided to go ahead and invite the 1,000 workers at NXP Nijmegen to engage with the centre. This invitation was extended to all staff at the plant, not just those who were to be made redundant. The employees were invited to discuss options such as starting their own businesses, training, career guidance and APL, and to participate in a workshop during working time and then a follow-up visit to the Workplein resource centre. Response was weak and some workshops had to be cancelled. Lack of transparency about the future plans of management, and lack of best practice precedents of “work to work” schemes in the company, meant that employees opted for redundancy payments rather than training to enhance their prospects of re-employment elsewhere.

The key role of mobility centres

Mobility centres have been used extensively and successfully in the Netherlands (and also in Ireland). There are different models of mobility or employability centres in use⁷.

By contrast, the past experience of Philips Drachten was more positive, and provides an interesting contrast to NXP, which, as noted above, had originally been owned by Philips. The company decided to outsource some of its production to China in 2005. In order to prevent compulsory redundancies, the works council pushed for the establishment of an employability/mobility centre. By 2009, around 700 employees had benefited from engagement with the employability/mobility centre, which provided guidance and support, so that workers facing dismissal were either retained and reallocated to other work within the company or equipped to find other work after their dismissal.

From the perspective of the trade unions, the key to the success of the initiatives in Drachten was the commitment of management to clarity and honesty about the future structure of the workforce and the close working relationship between managers and the employability centre. Managers themselves were trained in human resources skills such as the right way to approach staff about notification of redundancies. Activities were reviewed every two weeks. Another key factor in the success of the process was the allocation of sufficient time before redundancies were implemented. Employees were given 12 months' notice of prospective redundancies and were immediately encouraged to engage with the mobility centre. Workers who found other jobs were also followed up by the HR department.

The **curative mobility centre** describes the most common model, referring to the centres established in response to a redundancy programme to assist employees losing their jobs to find employment opportunities elsewhere. This type of mobility centre can be viewed as an internal outplacement unit, because the emphasis is solely on assisting redundant employees to find jobs outside the organization.

The focus of the **preventive mobility centre**, on the other hand, is on both internal and external employee mobility. This type of mobility centre seeks to prevent the emergence of staffing problems within an organization by stimulating voluntary mobility among employees in those parts of the organization which are likely to come under pressure to reduce numbers. It does this by increasing awareness among employees of job opportunities elsewhere within the organization as well as outside it, providing information on the skills and expertise needed for alternative positions and/or careers. The work of the preventive mobility centre combines a focus on operational matters with attention to strategic issues.

The third type of mobility centre, the **proactive mobility centre**, such as that used in the Philips Drachten example cited above, is involved in providing services to facilitate internal and external employee mobility but also has a stronger input in terms of strategic human resource development policy. This type of centre has an important role in the development and implementation of policies focused on employee mobility, with a strong emphasis on anticipating and preventing future compulsory redundancies and external recruitment by facilitating the voluntary internal mobility of employees.

⁷See www.mobilitycentres.net.

Accreditation of prior learning (APL)

Another notable tool used in an innovative way in the Netherlands is APL, which is effectively “a process which recognises learning for the purposes of claiming credit against an award regardless of where or how the learning was achieved. It has two components, APCL (Accreditation of Prior Certificated Learning) and APEL (Accreditation of Prior Experiential Learning)”. A pilot in The Hague

showed the vast potential for this form of empowerment of employees, making them less vulnerable to restructuring. In 2008, 105 former company employees were invited to participate in an APL procedure. Of the 105, 74 reached a formal National Vocational Qualification framework certification at level 2, and another 42 achieved one or more partial certificates for this VET level. The pilot revealed the hidden talents and competences which can be assessed and certified by APL procedures. (Sprenger, 2010, p. 47.)

Lessons learned

Trust and a transparent management strategy are essential for successful interventions when workers are about to be displaced. Timely notification of potential worker displacement is also important, in order to give sufficient scope for career change interventions. Prior experience within the company of best practice displacement initiatives, such as a proactive mobility centre, is also of key significance in the success of the collaborative approach to worker displacement (as demonstrated in the case of Philips Drachten, outlined above).

Familiarity with and knowledge of the tools that can be used in handling worker displacement – such as APL, internal retraining and mobility options, and professionally delivered vocational guidance – are also crucial to success. In the case of the Netherlands, the establishment of mobility centres seems to have enabled this knowledge base to become embedded and then used in an effective manner. Mobility centres have also been shown to be effective in assisting employees to make successful career and job transitions, both internally within the company and externally in other occupations, as well as in delivering internal solutions to staff/skill shortages by encouraging staff to retrain in order to acquire new skills to meet internal company skills deficits.

The strong tradition of social dialogue in the Netherlands has also been key to the resolution of labour market adjustment issues in a consensual and collaborative manner.

CHAPTER 8

The United Kingdom: Collaborative best practice in engaging with displaced workers

Summary

This case study illustrates the importance that the UK accords to active engagement with the unemployed, a principle progressively implemented since 1997. This engagement was put into play very effectively in response to the challenge of the MG Rover closure in 2005. The comprehensive responses implemented reflect the best practices outlined in the *Guide to worker displacement* and introduce new models of best practice.

Having been caught unawares by the 2000 crisis in MG Rover, the UK Government responded to the challenge of retrenchment in 2005 by setting up a new Regional Task Force (MGRTF) under the leadership of the Regional Development Agency (RDA). Reflecting the principles set out in the *Guide to worker displacement*, the MGRTF was solidly founded, comprising representatives of Advantage West Midlands, Accelerate (a government body providing support for small business), Birmingham City Council, other local authorities, trade unions, community groups and industry bodies. It was able to respond quickly, building on the work done by the old RTF established in 2000.

Dealing promptly with the human, labour market and economic consequences of over 6,000 redundancies in MG Rover and its suppliers in 2005 posed enormous **challenges** to the agencies involved in the West Midlands. The sheer scale of the layoffs, combined with the lack of prior notice of the redundancies and the speed with which they were implemented, was unprecedented in recent experience.

Nevertheless, advance planning was key to the effective delivery of the whole package of support provided in **response** to the closure. The strong partnership of local and regional agencies and partners produced detailed contingency plans in the weeks immediately leading up to the collapse of MG Rover, and when the company went into administration in April 2005 a multifaceted and integrated action plan, agreed with the newly formed MGRTF, was put into effect. The initiatives put in place included a dedicated website, a rapid response approach from the PES, coordination between the MG Rover human resources team and the PES, a customized information pack, training

advice and provision from the Learning and Skills Council (LSC), a special helpline for the many employers wishing to notify vacancies suitable for the redundant workers, a residents' helpline for families affected by the closure, payment of statutory redundancy compensation for workers, support for suppliers and retailers including a wage replacement scheme, support to the local community, and advice centres.

Evaluation of the interventions indicates that 90 per cent of workers were back in work within two years, and that 170 supplier companies saved 1,300 jobs using the wage replacement scheme. The response was comprehensive, agile and timely, mainly owing to the preparations and initiatives put in place in 2000 and the consequent ability to mobilize resources effectively and efficiently in 2005. The response reflects many of the approaches discussed in the *Guide to worker displacement*.

The **lessons learned** over the two phases of MG Rover retrenchment show the value of preparation activities and of close collaboration between industry, workers, PES, governmental and regional agencies, local communities, and training and educational institutions. The essentially collaborative nature of the response was key to its success and is a clear example of good practice.

Background

The economic crisis of 2008–09 plunged the UK economy into a severe recession with significantly reduced output. The unemployment rate rose towards 8 per cent in 2010/11. Labour market policy focused strongly on labour force activation policies to buttress medium-term labour supply.

A key message coming from the UK is that every effort is made to protect the labour market advances achieved over the past 10–15 years. The principal lesson learned from the recessions of the 1980s and 1990s is that it is all too easy for long-term unemployment to transform into enduring inactivity. In recent years the focus of UK welfare reform has been on extending ALMPs to the residually inactive segment of the working-age population, thus seeking to reinforce the importance of engaging with all potential labour supply in the context of unmet labour demand. Notwithstanding the increased focus on addressing the needs of the newly unemployed in recession conditions, the Government's launch of the more "active" Employment Support Allowance to replace the "passive" Incapacity Benefit showed a political will to address "legacy" issues. Early indications showed that some two-thirds of people applying for the new benefit were being required to claim Job seekers' Allowance (JSA) rather than Incapacity Benefit.

Institutional framework

A key player in labour market policy and operations is the UK PES (Jobcentre Plus). The PES is quickly mobilized when a retrenchment is initiated, normally before actual redundancies take place. The current job seeker support regime delivered by Jobcentre Plus is very successful in that 60 per cent of job seekers find work within three months. The New Deal (ND) programme has helped more than 1.7 million people into work since it was introduced in 1998⁸.

However, ND performance has diminished as the proportion of harder-to-help individuals in the unemployed population has increased. Those who were out of work before the current crisis are more likely to suffer from multiple disadvantages than the unemployed of ten years ago. Ensuring that these people are supported and equipped to return to work requires more personalized and tailored help – based on individual need rather than age.

In recent years the UK Government has made clear that it wants to:

- improve the flexibility of provision and target it better to meet individuals' personal needs;
- ensure the longer-term unemployed get additional help;
- help people to gain the skills training they need to help them get better jobs;
- make greater use of the flexibility and innovation that working in partnership with the public, private and voluntary sectors can provide;
- retain Jobcentre Plus at the heart of the welfare system.

The Government decided to rationalize programme provision by replacing the range of existing NDs for job seekers with a single Flexible New Deal. In a healthy labour market the majority of job seekers generally find work quite quickly – typically around 60 per cent within three months, 80 per cent within six months and 90 per cent within a year. So the refreshed job seekers' regime aims to offer more support to individuals the longer they are on JSA, while also increasing the efforts they are expected to make in return. The regime has four stages, characterized by increasing support and conditionality:

- Stage 1: self-managed job search, including Back to Work group sessions;
- Stage 2: directed job search, typically after three months without work;
- Stage 3: supported job search, with mandatory activities and sanctions for failure to comply, beginning typically after six months without work;
- Stage 4: entry to the Flexible New Deal, typically after 12 months without work.

Job seekers with a history of claiming benefit, and younger people who have spent a significant length of time on JSA or have not been in education, training or employment for a period prior to claiming JSA, are fast-tracked to Stage 3 from the start of their claim. People in vulnerable groups are able to volunteer to enter Stage 3 early, subject to capacity.

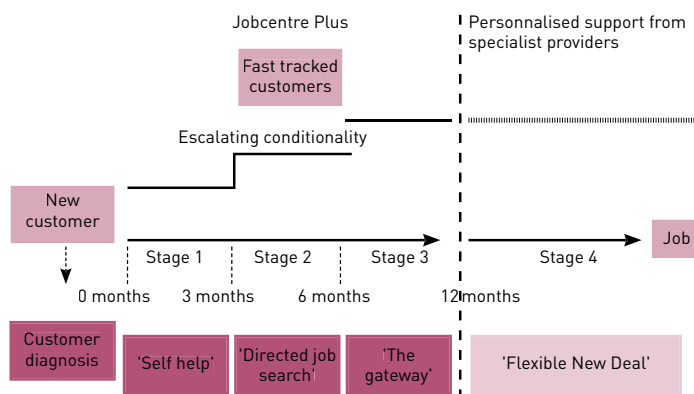
⁸Including ND for Young People, ND for those aged 25 and over, ND for those aged 50 and over, and ND for musicians.

8

Challenges

In the context of the recent recession there was a renewed focus on effective and efficient responses to worker displacement. Past experience has allowed for the identification of good practice, which is reflected in recent response models and initiatives. The UK approach may be a good counterpoint to that taken in some other countries because the focus tends to be on the individual rather than the firm that has shut down. People leaving a business as a result of redundancy tend to move quickly into work and also to be more employable than people already unemployed. Therefore, the general response in the past was to promote effective job search (e.g. by having a Jobcentre in the closing or contracting factory) and to provide more help if the individual failed to find a job within a certain period.

Figure 11: The UK jobseeker regime and the Flexible New Deal



Source: Work and Pensions Committee - Second Report DWP's Commissioning Strategy and the Flexible New Deal, February 2009. www.parliament.uk/briefing-papers/SN04849.pdf

One of the reasons for this approach is that generally the size of the redundancy is very small relative to the large flows into and out of work⁹. Only if the redundancy is sufficiently large to “swamp” the local labour market is there any expectation that the rate at which people will get new jobs may decline. In addition, the adverse effect is likely to be concentrated more on those already without work than on those newly made redundant.

⁹Bill Wells, UK Ministry of Business Innovation and Skills, personal communication, 2009.

Responses

Recent responses

Specific new measures in response to the recession of 2008–09 included the following:

1. Increased staffing in the PES and a strengthened Rapid Response Service:

The Rapid Response Service provides help for those about to be made redundant. Since 2009 its annual funding has been increased from £3 million to £12 million. The service is to be offered to every employer with 20 or more redundancies and can be made available more widely in any local communities that have been disproportionately affected by multiple smaller-scale redundancies.

2. More help available to newly unemployed people:

- one-hour group information sessions delivered by Jobcentre Plus for those who need it, with the option for those who need more coaching and individual support to be referred to an advice and coaching session delivered by external providers;
- use of organizations (including recruitment agencies) specializing in support for professionals and executives to provide support;
- access to programme centres for those who need help with CV writing, interview preparation and other job-search skills;
- a “job kit” made available to all with useful advice about job-hunting;
- clear signposting to the available help, both through advertising and through intermediaries.

3. More help for people who have been unemployed for six months:

- personalized support from a Jobcentre Plus adviser;
- a recruitment subsidy to employers taking on such job seekers;
- support for those who want to become self-employed;
- access to 75,000 new work-focused training opportunities;
- work-focused volunteering placements.

4. Helping people with mortgages stay in their homes

Under the previous rules, people losing their jobs only got help with mortgage costs up to £100,000, and only after 39 weeks of being unemployed. From 2009 the qualifying period was reduced to 13 weeks and the capital amount increased to £200,000.

5. Extension of Local Employment Partnerships (LEPs)¹⁰

LEPs now cover the newly redundant as well as the long-term un-employed and other jobless people at a disadvantage in the labour market.

6. Creation of the National Employment Partnership

Through this new body, chaired by the Prime Minister, 22 major employers and representative groups have committed to advertising all their non-specialist vacancies through Jobcentre Plus.

¹⁰LEP is effectively an agreement between Government and business to tackle the increasing recruitment and skills challenges of the UK labour market and economy. Thousands of employers across the UK work in partnership with Government to open up employment and training opportunities to disadvantaged job seekers.

8

Past responses

As explained above, the UK has consistently stressed the importance of active engagement with the unemployed coupled with conditionality of benefits. Since 1997 it has progressively implemented these principles. These and other methods of engagement were put into play very effectively in the case of the MG Rover closure in 2005.

A report by GHK Consulting, produced for the European Foundation for Living and Working Conditions (GHK, 2007), describes the lead-up to the closure:

In 2000 Rover looked as if it would fail as BMW announced its decision to pull out. In the lead-up to the sale of the company in 2000 from BMW to Phoenix, there were fears that the company would close. In response, the UK Government set up a Rover Task Force (RTF), led by Alex Stephenson, the then Chair of the RDA, with representatives of local authorities, social partners and employer organisations. When Phoenix bought the company as a going concern in 2000, the government regarded the issue as closed. However, the Task Force continued to meet for several months in 2000, under the RDA's lead, and reviewed the performance of the regional economy in light of Rover's staying in business. The Task Force pressed the government for a regional support package, to which the Secretary of State at the Department of Trade and Industry, ultimately agreed. The RTF's final report in July 2000 outlined the elements of this package.

The regional economy was to be modernised, shifting the region's reliance on heavy manufacturing into higher value-added areas such as electronics (with funding of GBP 17 million). In addition, the supply base was to be diversified (with the support of almost GBP 20 million). This approach would have been the "emergency" response in the event of Rover's closure but instead became a longer-term plan to diversify engineering skills from their relatively narrow application in manufacturing, into areas such as medical technologies and nanotechnology. The RDA had already written the modernisation and diversification programmes into the Regional Economic Strategy, but as a result of the Task Force's activities, these programmes were extended and accelerated over the next three years, up to 2004.

Having been caught unawares by the 2000 crisis in MG Rover, when a new crisis loomed in 2005 the Government set up a new Regional Task Force, the MGRTF, under the leadership of the RDA. With representation from Advantage West Midlands, Accelerate, Birmingham City Council, other local authorities, trade unions, community groups and industry bodies, this MGRTF had a sound foundation and was able to respond quickly, building on the work done by the old RTF established in 2000.

Dealing rapidly in 2005 with the human, labour market and economic consequences of over 6,000 redundancies in MG Rover and its suppliers presented an enormous challenge to the agencies involved in the West Midlands. The combination of sheer scale, lack of prior notice and speed of the redundancies was unprecedented in their recent experience (Armstrong, 2006).

A strong partnership of local and regional agencies and partners produced detailed contingency plans in the weeks immediately leading up to the collapse of MG Rover. This advance planning was key to the subsequent effective delivery of the whole package of support, enabling a multifaceted and integrated action plan, agreed with the newly formed MGRTF, to be put into effect as soon as the company went into administration on 8 April 2005. The following paragraphs summarize the initiatives that were put in place.

A dedicated website, hosted by Advantage West Midlands, was set up. It gave details of the package of support available, with easy navigation between micro-sites offering help tailored more closely to employees, residents and suppliers and, latterly, vehicle retailers. It also incorporated various downloads.

As part of its rapid response approach to dealing with large-scale redundancies, Jobcentre Plus designed and produced a customized information pack (Here to help), which was issued to all workers with their redundancy notices. This gave details of the help available, including information on redundancy rights and welfare benefits, and advice on job search and training opportunities. A free employee telephone helpline at the nearby Jobcentre was also set up, with sufficient lines and capacity in place to answer initial enquiries and book appointments to claim JSA. Over 11,000 calls were received in under eight weeks. It is worth noting that, with extra staff drafted in from other regions, all claims by redundant workers for JSA were taken within the ambitious one-week target period set by the Secretary of State for Trade and Industry. This required late-night and weekend opening of the relevant Jobcentres to manage the huge demand.

Access to LSC advisers based in a nearby “one-stop shop” enabled employees to receive information and guidance on the wide range of opportunities available. This intensive effort resulted in a large number of training plans being developed and a high proportion of employees starting training. A key point is that there was a need for resource-intensive face-to-face communication with redundant workers.

A special helpline for the many employers wishing to publicize vacancies that might be suitable for former MG Rover workers was set up by Jobcentre Plus. This provided a fast-track service and formed the basis for a later task force initiative to provide financial help towards training and travel costs for workers re-entering engineering jobs in the East and West Midlands, again with its own dedicated point of entry.

Birmingham City Council also set up a residents’ freephone helpline, operating seven days per week, to provide free advice to local residents or families affected by the closure. This also went live as the company went into administration and proved invaluable in providing advice and information on financial matters, where to get help, and details of further local support. Over 2,100 calls were received.

MG Rover’s human resources team played a useful coordinating role with Jobcentre Plus in organizing and managing the redundancy of nearly 6,000 workers, using the company’s employee database. The Task Force subsequently provided funding (to MG Rover’s administrators) to keep this team in place, first so that they could provide workers with employment details relevant to their job search and secondly in order to issue, on behalf of the Task Force, weekly bulletins on employment and training developments, and vacancy details from Jobcentre Plus.

The Task Force issued regular press releases to inform different target groups of developments as they occurred, through newspapers and other media. For example, support for suppliers, new loan facilities for companies in difficulty, and the achievements of the Task Force in respect of people placed into jobs or signed up for training all received good coverage.

There has been excellent joint working between Jobcentre Plus and the LSC in the region, and among training providers, especially the further education college sector. A new Service Level Agreement was developed between Jobcentre Plus and the LSC for the delivery of training to redundant workers. Jobcentre Plus staff provided immediate advice on benefits and initial employment opportunities, as well as dealing with eligibility for benefits and entitlements to payments in lieu of notice for over 5,600 individuals and following this up with early in-depth one-to-one skills assessments by a team of skills advisers, leading to personalized training plans for over 3,000 individuals. In order to meet this scale of need, much provision had to be organized from scratch. Additional provision by the college sector was organized jointly, with Centres of Vocational Excellence taking a lead, and considerable flexibility being shown (in terms of running courses over the summer holiday period, for example).

Box 2: Summary of the MGRTF interventions

Support for redundant workers

Primary areas of support:

- training for redundant workers of MG Rover and its suppliers (£40 million, managed by the LSC, and including the “Train to Gain” programme);
- statutory redundancy payments and compensation awards (£50 million).

Practical actions taken:

- all redundant workers were interviewed by Jobcentre Plus within two weeks of the closure;
- redundancy payments were processed quickly and paid within two days, rather than after the usual period of several weeks;
- an additional 160 Jobcentre Plus and LSC staff were brought in to help;
- an information pack (*Here to help*) was provided for all redundant workers, addressing their specific needs;
- an employer vacancy hotline was set up;
- a “manufacturing hub” was created to match manufacturing workers to jobs in the sector;
- a three-day jobs fair with 140 employers was held in a local venue;
- MG Rover’s human resources team were kept on to stay in contact with redundant workers and to provide them with references for job applications;
- training and skills advice was provided by 120 skills advisers from the LSC in six centres;
- training rules were relaxed so that redundant workers could receive training in fields not normally supported, such as driving instruction and plumbing.

Support for suppliers and retailers

Primary areas of support:

- grant support to MG Rover’s former suppliers (£42 million);
- loan support for business recovery plans (the Transition Loan Fund, £25 million);
- investment in technology and innovation infrastructure (£9 million);
- a wage replacement scheme for ex-suppliers, providing £50 per day, for up to six weeks, for each job that had been reliant on MG Rover but could be saved;
- deferral of suppliers’ VAT liability, employees’ income tax and national insurance payments;
- a Transition Loan Fund, set up to help suppliers shift from their dependence on MG Rover into sustainable business;
- advice seminars organized by the Chamber of Commerce and Business Link.

Support to the local community

Primary area of support:

- Measures to address the impact on the community (£10 million).

Practical actions taken:

- Local city council advice centres provided support (handling almost 7,000 queries), and a community helpline was set up to provide advice to those in the Longbridge area affected by the closure; the helpline received on average over 150 calls per day in the two months after the closure. Work continues to support the local community – for instance, through the “Working for Jobs” programme, which includes a £2.5 million support package from the LSC.

Source: EMCC case studies, Managing large-scale restructuring: MG Rover, European Foundation for the Improvement of Living and Working Conditions, 2007.

The **placement outcomes** (albeit in a very buoyant economy at that time), as reported in April 2007, are impressive:

Workers

- By April 2007, 5,288 (90 per cent) of the 5,850 redundant MG Rover workers were back in work, over a third of them having returned to jobs in manufacturing.
- Out of the 5,850 employees of the 150 supplier companies, 3,850 (66 per cent) were still in their jobs, and 339 of the 350 supplier companies were still in operation.
- Over 4,000 people had each completed an individual skills advice session to develop their own individual training plans.
- Over 1,000 of those then in work had received training through the LSC.
- Some 750 redundant workers had found jobs through the manufacturing hub.

Suppliers

- The wage replacement scheme had been used by 170 companies, saving 1,324 jobs (jobs that continued beyond the payment of the wage subsidy), at a cost of £3.4 million.
- Deferrals of VAT and employees' tax and national insurance liabilities worth £12 million helped 106 companies.
- The Transition Loan Fund assisted 19 companies with approved loans totalling more than £5.5 million.

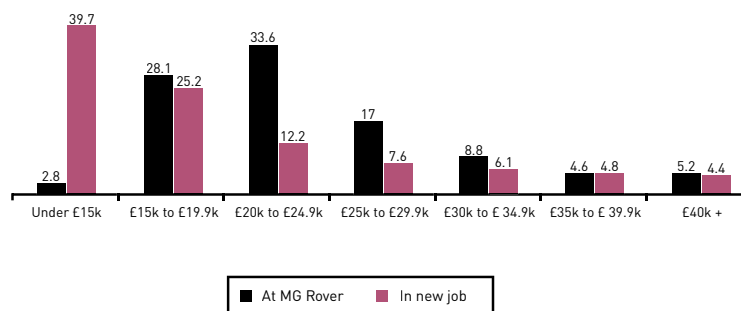
It is worth noting that the European Commission supported the Task Force programme and labour market interventions through the European Social Fund (£49.5 million) and the European Regional Development Fund (£15.9 million).

Assessment of outcomes in the MG Rover case

The response was comprehensive, agile and timely, mainly owing to the preparations and initiatives put in place in 2000 and the consequent ability to mobilize resources effectively and efficiently in 2005. Nevertheless, despite the successes outlined above, a number of studies have pointed to some deficiencies in outcomes (e.g. Armstrong et al., 2008). These relate to the quality of jobs obtained by a large number of the redundant workers; self-esteem and health issues; the quality of training and the speed with which it was provided; and a lack of start-up support for some who became self-employed and subsequently went out of business. There was also some criticism of the action planning accessible through Jobcentre Plus. It has been suggested (Armstrong, 2006) that many of the ex-MG Rover workers have not been and will not be able to find “good jobs” (in terms of pay, security and status) and will be forced to accept lower-paid “bad jobs” (requiring lower or minimal skills). A minority of workers may become long-term unemployed or withdraw from the labour force permanently.

It is clear that despite the high proportion of ex-MG Rovers finding new placements, the majority of them have not experienced an improvement in their labour market status. A majority of workers reported both a decline in earnings and a rise in job insecurity, which is known to have a negative influence on well-being (MGRTF, 2005).

Figure 12: Comparison of salaries paid at MG Rover and in subsequent employment



Source: MG Rover Task Force, *The work goes on*, final update report, March 2006.

Lessons learned

Lessons learned from the process can be approached from a number of different perspectives.

The Rover/MG Rover Task Forces

From the perspectives of the Rover Task Force (RTF), established in 2000 when BMW sold Rover to Phoenix Holdings, and the MG Rover Task Force (MGRTF), established in 2005, the lessons may be summarized under the following headings:¹¹

- **Strong partnership working across the region:** It was acknowledged that the collaborative approach of all actors established in the RTF period needed to be continued in 2005. The evidence suggests that this was one of the key strengths of the MGRTF's work.
- **Strong central coordination of interventionist programmes:** It was found that central coordination of interventionist programmes had worked better for MGRTF than for RTF. Under the second Task Force, those involved believed that there was a vision, a plan and a clear understanding of who was responsible for what, and that the strong coordination of the MGRTF enabled the project to communicate with one voice.
- **Speed of response:** A speedy response under the MGRTF was made possible by drawing on the experience of the RTF experience. This facilitated quicker response times after 2005.
- **Proactivity and confidence:** A more proactive engagement with the local economy through direct contact with companies was a core characteristic of the MGRTF experience, more so than in the RTF period. This is further exemplified by the MGRTF's use of direct approaches for consultation, rather than working through third parties, and by a developing confidence within the private sector that the MGRTF exhibited a stronger sense of business understanding.
- **Flexibility:** Flexibility in process is the key to putting plans into practical effect, and this was a key attribute of the MGRTF, with less red tape and bureaucracy than the RTF.
- **A combined short- and long-term focus:** Advantage Midlands West, the RDA, learned a valuable lesson about the difference between a short-term emergency response and long-term strategic improvements. The RTF and MGRTF experiences resulted in a better awareness of the future strategic positioning of the West Midlands region, to be pursued by considering diversification and a high-growth company strategy.
- **Business start-ups:** It was realized that support for new businesses needed to go beyond encouraging self-employment.

¹¹This section is extracted and condensed from Ecotec (2008).

Other independent studies

Other independent studies identified lessons as follows:

- Constraints on training provision needed to be dealt with earlier (MGRTF, 2005).
- “A reliance on flexible labour markets is insufficient to promote worker adjustment and . . . even more active policy intervention is needed especially with regard to upskilling. (This is in the context of a majority of workers reporting lower earnings post redundancy and a rise in job insecurity.) For many, reliance on flexible labour markets only reinforces polarisation and exclusion” (Armstrong et al., 2008).
- “In terms of policy interventions, it needs to be recognised that much work was done by the RDA Advantage West Midlands and other agencies before the MG Rover closure, in diversifying the supply chain and economy, and this work may have ‘saved’ as many as 10,000–12,000 jobs in the supply chain” (Bailey et al., 2008).
- The closure of MG Rover did not impact as significantly on companies in the supply chain as had been envisaged. They saw what was happening with the company and modernized and diversified their product range to reduce their dependence on MG Rover (Amicus, 2007).

Conclusions

The approach to dealing with the two phases of MG Rover retrenchment through the RTF and MGRTF shows the value of preparation and close collaboration between industry, workers, PES, governmental and regional agencies, local communities, and training and educational institutions, and reflects best practice in line with the *Guide to worker displacement*. It is difficult to prepare for closure while trying to avert it, but the essentially collaborative nature of the response was key to the success of the MGRTF. The lessons learned have been applied to subsequent redundancies, such as the Peugeot retrenchment in Coventry in 2006–07. But the scale of the MG Rover closure was singular, and the successful response process (albeit with the imperfections outlined in this case study) is a clear example of good practice in retrenchment.

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