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The crisis' impact on Human Resources

Downsizing of workforces and cutbacks in pay

The economic crisis continues to have a major impact on public sector budgets across the EU. Many European countries have been forced to review their level of public spending.

Some of the austerity measures being implemented in regard to public employees include cutbacks or freezes in pay and downsizing of the workforce. However necessary such measures might be, they can have substantial effects on the performance of organisations and often constitute a severe intervention in the life of employees.

Despite differences in the administrative and legal frameworks and economic challenges each EU-member state faces, continuing demand for reducing public spending makes it valuable for EUPAN to share knowledge and experiences on these issues.

Therefore, the Danish Presidency has invited members of EUPAN/national public administrations to take part in a discussion and share their knowledge on cutbacks and/or freeze in pay and downsizing of workforces during two HRWG-sessions. Each session was started with case presentations by member states followed by a discussion. The aim of the Danish Presidency has been to accentuate examples of initiatives taken and lessons learned.

Aspects of the economic crisis and its impact on the public sector have previously been on the EUPAN agenda. For instance the importance of an effective social dialogue was discussed during the Belgian Presidency in 2010.

Discussions on crisis related issues are expected to continue under future presidencies.

Cutbacks in pay

A number of member states have already announced or carried out cutbacks and/or a freeze in pay. As the crisis continues to unfold other member states are forced to consider similar actions.

The decision to implement cutbacks and/or freeze in pay is often based on considerations as to the extent of the economic challenges, the overall social

framework, the structure of the labour market and the public pay system. In states with a strong collective bargaining tradition cutbacks in pay implemented by law can for example constitute an unaccustomed intervention in the labour market and in some cases also in the social dialogue mechanisms.

On the individual level cutbacks and/or freezes in pay will entail a deterioration of the employees' terms of employment which can lead to opposition and a drop in the performance of public organisations.

Therefore, careful consideration as to how such initiatives are designed and implemented is important.

Spain

- Cutback in pay on an average of 5 pct. has been implemented for all public sector employees with only few exceptions.
- The cutbacks were designed to reduce pay progressively depending on the level of the employee's position. Around 3 pct. cutbacks in pay for low level employees. For high level employees around 6-8 pct.
- Cutbacks in pay were followed by a freeze in pay for all public sector employees
- Implemented by Royal law-decree which is an exceptional law making process only used in very urgent and exceptional necessary situations without social dialogue.

Cyprus

- Measures include a freeze of pay and occupational pension for 2 years, introduction of contribution on 3 pct. of gross earnings for occupational pension and temporary contribution on gross earnings of employees and pensioners for 2 years.
- 10 pct. reduction of salary scales and abolition of occupational pension for newcomers in the civil service (first-entry level).
- Consultation with unions took place on a high political level. Unions agreed on some but not all measures.
- Due to urgency, the procedures for social dialogue diverged from normal but reactions were still limited.

Lithuania

- From 2009 to 2010 crisis management has led to a cutback in pay by 16 pct. for civil servants.
- Primo 2009 basic salary was decreased by 3 pct. In spring the salary for high level positions was decreased by 8 pct. by decreasing the coefficients of the basic salary.
- In summer 2009 basic salary was decreased again, coefficients for high and medium level positions were cut and bonuses for the qualification class were decreased amounting to a decreasing of remuneration of 11,5 pct.
- The composition of remuneration was restructured in order to increase basic salary and decrease bonuses.

Estonia

- From 2009 to 2010 operational budgets were reduced by 1.1 pct. of GDP including cuts in expenditures on employees.
- Institutions implemented cuts on operational budgets through a mixed set of measures that varied between institutions.
- Measures resulted in a 14 pct decrease in payroll in 2009 derived by 7 pct. on bonuses and fringe benefits, 3 pct. on unpaid leave and part time jobs, 3 pct. on redundancies and 2 pct. on pay.
- Cutbacks were prioritised by Parliament and the legal framework did not constitute a barrier for implementation. Unions represent a very little part of the public employees and for that reason hardly played any role in the process.

Summation

All the cases show that cutbacks and/or a freeze in pay were implemented on the basis of a burning economic and political platform, which demanded exceptional and urgent political action.

In Spain, Cyprus and Lithuania austerity measures were implemented by law and the designs of cutbacks and/or freeze in wages were tailored to the specific economic challenges and administrative and legal framework. However, in all three cases cutbacks were implemented across the board with few exceptions and differentiated between levels of employees making the largest cutbacks for top levels.

In Estonia pay cuts were a result of operational budgetary cuts. Due to amongst other the decentralised pay structure in the country, pay cuts were implemented at the local level and measures taken also included recruitment freeze, unpaid leave, cuts in training and development and other work related expenses.

Despite the limited social dialogue in the cases of Spain, Cyprus, Lithuania and Estonia, reactions from employees and unions have been relatively confined.

Downsizing of public workforce

A great majority of member states have downsized their public workforce due to the economic crisis.

Downsizing can be a result of automatic productivity cuts intended to drive efficiency improvements in the public sector. The OECD report 'Getting it right' from December 2010 states that automatic productivity cuts not only can reduce public expenditure, but also tend to force ministries and sub-units to think more strategically about their workforce allocation and to plan for the future.

Automatic productivity cuts have, however, been criticized for not taking into account that productivity gains differ between policy areas, and that productivity growth percentage cannot be determined objectively.

The Danish public administration is undergoing a downsizing exercise called 'efficient administration' where ministries are asked to focus on their core business and prioritise their service. The intention is to relinquish other projects or tasks and downsize accordingly.

Denmark

- Ongoing annual productivity cuts on 2 pct. and as a consequence of 'efficient administration' additional budgetary cutbacks on 2,5 pct. in 2012 and 2013.
- Measures implemented include cutbacks in regard to costs on overhead, digitalising of working processes, merging institutions to obtain economic scale, focusing on core tasks and downsizing of workforces.
- Downsizing measures include voluntary and involuntary redundancy programmes, recruitment freeze and early retirement schemes and has affected both civil servants as well as employees covered by collective agreements.
- Collective bargaining for state employees have resulted in a decrease in real wages since 2011.

Downsizing can be implemented in a number of ways. Voluntary and involuntary redundancy programmes, recruitment freezes, replacement percentages, cease of promotion and early retirement schemes are some of the instruments used by member states in order to downsize their workforce.

Which measures are being implemented is closely linked to the legal and administrative framework in each member state. In member states in which civil

servants and lifetime tenures compose a sizeable part of the state employees, downsizing can be difficult or even impossible to achieve by redundancy programmes.

In some of these member states, for instance France and Portugal, a general limit on replacements of civil servants have been introduced in order to downsize the workforce. In other member states such as Spain replacements limits are being differentiated between different parts of the public sectors.

Lithuania

- Since 2009 crisis management in the civil service has lead to an optimisation of staff resulting in a reduction of the number of civil servants by more than 2.000 from 2008 to 2012.
- Civil servants have been dismissed when their position has been cancelled based on liquidation of the institution/agency or reforms inside the institution/agency.
- Dismissed employees are guaranteed 2 or 4 months notification, severance pay, a centrally administered right to be appointed to another civil service position during the notification period and the right be offered a vacant position within 6 months after dismissal.

Whatever measures implemented there will be consequences for both the organisation and the employees involved. Redundancy programmes especially puts a great amount of strain on the organisation and the employees, which can take a long time to recover and rebuild. A carefully thought out process is therefore of vital importance in order to ease some of the strain, so that both employees and the organisation can move forward fairly quickly after the redundancies are carried out.

Denmark

- Since 2010 250 positions in the Danish Ministry of Foreign Affairs have been shut down due to cuts on operational budgets.
- Measures to implement downsizing of the workforce include recruitment freeze, 85 voluntary redundancies and 83 involuntary redundancies.
- Criteria for selection process in regard to involuntary redundancies include professional qualifications, job performance and personal qualifications seen in relation to the future tasks and competence needed in the ministry.
- Transparency, involvement of managers and a careful considered communication strategy was important elements of the process.
- An early and consistent involvement of union representatives proved very valuable.

- Redundant employees were provided with psychological crisis counselling, outplacement assistance and competence development.

Summation

Both in Lithuania and in Denmark reorganisation of the public sector and a prioritising of future tasks and services have been decisive in the implementation of redundancy programmes. The redundancy programmes have often been connected with the merging of institutions.

In Denmark redundancies have been implemented at institutional level due to reductions on operational budgets. Redundancies have generally been carried out after a close determination of future tasks and consequently future competences needed in the organisation.

In the case of the Danish Ministry of Foreign Affairs generic performance related criteria for who were to be made redundant were outlined in order to prevent arbitrariness. A considerably amount of involvement from both line managers and union representatives helped shape a process that took redundant employees as well as remaining employees into consideration.

Other countries use more objective principles such as 'last in first out' or early retirement schemes when implementing voluntary or involuntary redundancy programmes. Such policies may, however, in some cases lead to the loss of employees that the organisation may have preferred to retain.

In a number of member states where the legal and administrative framework impede implementation of involuntary redundancy programmes, downsizing of workforces is amongst other measures achieved by imposing limits on replacements.

The effort to ensure dismissed employees find new employment has been of great importance in both Lithuania and Denmark. While civil servants in Lithuania have the right to redeployment within the notification period, private outplacement consultants are widely used in Denmark.

The importance of considering outplacement measures is supported by lessons learned from the major Swedish downsizing and restructuring of the public sector in the 1990's where outplacement initiatives were highly prioritised.

Austerity measures impact on the organisation

The OECD report 'Getting it right' from December 2010 suggests that cutbacks in the public sector might have a number of adverse side-effects on the performance of organisations.

Whether implemented by voluntary or involuntary redundancy programmes, recruitment freezes, replacements limits or retirement schemes downsizing of

workforces often result in a decline in the motivation of employees and a high level of anxiety that can cause discontinuity of public services.

Moreover, as the most valuable employees tend to leave an organisation first, a downsizing process can cause an unwanted loss of expertise, a less productive remaining workforce and expenses in regard to attracting and training new employees.

These adverse side-effects can lead to a reduction in the performance of organisations and ultimately an erosion of public trust. Hence, it is important to be aware of the risks and take steps to minimise the potential effects of measures implemented.

Public service motivation, Associate professor Lotte Bøgh Andersen

- Public service motivation and intrinsic task motivation effects employees' choice of sector (public/private) to work in, performance, number of sick days and job satisfaction.
- Cutbacks can be demotivating if not done very carefully and low mobility can lead to a low "person-organisation" fit.
- There are also benefits of the crisis including a burning platform to make changes and a possible inflow of talent from the private to the public sector.
- The combination of the two types of leadership "transactional leadership" based on exchange of rewards for efforts and "transformational leadership" based on leaders trying to motivate behaviour by changing their followers' motivation and values might be the key to ensuring a high level of motivation not least in times of crisis.

The importance of leadership in regard to maintaining a high level of motivation and navigating an organisation through times of cutbacks underline the need to consider the tasks of line managers in a cutback situation.

Basic tasks of line managers in a cutback situation, Consultant Gitte Mandrup

- Decide what, where and how to cut quickly without delay
- Address four key issues; Downsize strategically, initiatives for all employees, initiatives for terminated employees and initiatives for surviving employees.
- Acknowledge the five dimension of a great place to work; credibility, respect, fairness, pride and camaraderie
- Realize that leadership is everything and communicate concisely, honest, clearly and frequently. Maintain morale and secure an environment of trust, direction and progress. Foster the survivors to become advocates.
- Create opportunities for innovation and continuous improvement.

- Attract and keep quality people by creating an atmosphere of motivational direction and develop survivor skills.
- Partner up with Human Resources Professionals.

Summation

The findings of Associate professor Lotte Bøgh Andersen in her research on public service motivation show that austerity measures can be demotivating and that motivation is closely connected to the performance of employees. Hence, austerity measures need to be implemented very carefully.

Lotte Bøgh Andersen suggests that the right management strategy combining both transactional leadership and transformational leadership is the key to maintaining a high level of motivation/performance during cutbacks. This could entail close attention to managing the human aspects of cutbacks for the remaining employees as well as the employees leaving the organisation.

Gitte Mandrup stressed that some managers forget to figure out how they are going to move forward in their new leaner environments and that focus should be on line-managers and survivors.

Downsizing can lead to fear, insecurity, frustration, anger, distrust etc. which can lead to decreased morale, reduced motivation and engagement, risk avoidance and loss of productivity.

To avoid that it is first of all important to define a clear vision for the future business that the employees can follow.

Leaders must be visible and involved during cutbacks and downsizing, and keep communicating mission, vision, values and goals.

Of importance is also to create measures of success and to provide constant feedback to let the employees know how they are doing in the new organisation.

