



# Restructuring in public services

Crisis, social dialogue and Renewals

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**RENEWALS**

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## **IRENE network and Renewals project**

Born during a seminar held in Dublin in 2003, IRENE (Innovative Restructuring- European Network of Experts) is a network bringing together independent experts – academics, practitioners, managers, social partners, consultants – from various countries (Belgium, Bulgaria, Czech Republic, France, Germany, Italy, Poland, Portugal, Romania, Slovenia, Spain, Sweden, The Netherlands, United Kingdom). It is open to new partners. Working on social and economic dimensions of restructuring in Europe with a view to promote responsible and therefore innovative practices, the IRENE network has achieved or contributed to a range of EU projects such as MIRE, AGIRE, HIRES, HIRES PUBLIC, ARENAS etc..) as well as to the Green paper published by the EU on restructuring (2012) or the report issued on the same topic by the European Parliament (2013). IRENE opened recently its website [www.responsible-restructuring.eu](http://www.responsible-restructuring.eu). Beside new projects and studies on restructuring, IRENE will deliver on a regular basis policy papers based on its works.

Having started in 2012, the Renewals project is an EU funded project focusing at innovations arising in times of crisis for restructuring in two areas, SMEs on the one hand and public sector on the other hand. This project was based on case studies and workshops conducted by IRENE network members. The project results are presented in two Workshop Cahiers.



## General Introduction

In this second policy paper, the IRENE network presents the main conclusions drawn from its EU project “Renewals” which focused on innovations in restructuring and social dialogue practices in a time of crises in public services. Until recently public services were viewed as relatively quiet in terms of restructuring operations, but times have changed! To take just one example, the public sector is now, according Eurofound, the main source of collective dismissals.

The concept of public services varies considerably between Member States. They differ from other services in that public authorities have a responsibility to ensure their supply regardless of whether they are profitable in a free market. They are difficult to define precisely due to considerable variations between Member States; they cover, for example, public administration, water, energy supply and waste disposal, healthcare and social services, education and postal deliveries.

Our case studies covered many countries and a range of restructuring issues:

- social dialogue in postal services in the French context of ‘bad being’ at work as well as in the Bulgarian context of successive political agendas and a hidden privatization perspective;
- austerity measures and forced mobility in the Portuguese social security system;
- organisation of job mobility through internal redeployment units in Germany or through job security councils in Sweden;
- perception of changes by public employees in the Belgian administration;
- outsourcing of public services and adjustment of social dialogue processes in the UK local administration context;
- innovations brought in by a new private based company in the Dutch health care system.

Our study highlights salient issues to be discussed more in-depth, particularly:

- the diversity of public services,
- the multiplicity of restructuring drivers in a global austerity context,
- the limited role of social dialogue despite a higher than average union density,
- the poverty of professional transitions and mobility organisation,
- and last but not least the severe impact on working conditions, especially on workers’ health.

In its policy discussion and conclusions, our paper emphasizes main conclusions related to:

- meaningful and strategic social dialogue;
- building sound ‘employer-ability’ in the public sector;
- responsible job transition processes;
- developing full evaluation and worker impact assessments.



## **I. Main findings**

The Renewals project brought evidence from eight European countries (Belgium, Bulgaria, France, Germany, Portugal, Sweden, The Netherlands, and the UK) to examine what is happening in public service restructuring as the long reach of the crisis of 2008 continues to manifest itself in austerity budgets. It looks at both countries where the crisis is most severe such as Portugal and those where the impact of the crisis has been less evident like Germany. The following points emerged:

### **Public services across Europe: diversity and austerity**

The public sector is heterogeneous and heavily differentiated both between and within services and countries. Those variations can be seen in several areas including:

In the nature of the bodies delivering public services: usual public administration at national as at local or regional levels, public funded agencies or public owned companies, private bodies (profit or non profit) in charge of delivering them, etc.;

In the diverse nature of the employment relationship: from civil servants to temporary workers, from highly regulated terms and conditions and status to basic private employment contracts, the contrasts are huge.

In the national use of EU concepts such as services of general interest (SGIs) or of services of general economic interest (SGEIs): generally, SGIs could be defined as those provided directly by public authorities, such as compulsory education and security, whereas SGEIs entail an economic relationship of some sort between suppliers and customers.

Restructuring has become a significant and a permanent feature of public service employment. Restructuring has changed the parameter of the public services (mainly by way of externalization, outsourcing and privatization) but also the nature of public services (by way of reorganising their content, their targets, their methods and their cultures).

At present, different austerity programmes are being implemented across Europe and represent one of the main drivers of restructuring. Very often, they have a common trajectory, albeit different countries are at different stages and face different levels of challenge, as countries try to reduce expenditure. According to the European Working Conditions Survey, 5 million public sector jobs have been lost since 2008 in EU 27.

The approach to cost reduction differs widely with the following categories identified:

- geographical and structural reorganisation,
- outsourcing and privatisation,
- changes in organisational and professional cultures,
  - reducing staff through compulsory job losses
  - reducing staff through voluntary redundancy schemes and 'natural wastage' i.e. not recruiting new employees to cover absence or retirement of civil servants,
- wage cutting and wage freezing,
- amendment of social benefits systems,
- reforms affecting employment conditions (increasing working hours or eliminating rest days, etc.).



**Different restructuring approaches**

Our study and exchanges identified three main types of restructuring practices which are often combined:

Type	Aims	Contents	Examples
Short term changes	<ul style="list-style-type: none"> <li>Primarily quantitative adjustment</li> <li>Change within the existing framework</li> </ul>	<ul style="list-style-type: none"> <li>Do more of the same, or less</li> </ul>	<ul style="list-style-type: none"> <li>Reduce the number of people</li> <li>Reduce working time, wages, etc</li> </ul>
Structural changes	<ul style="list-style-type: none"> <li>Radically changing type of structure</li> </ul>	<ul style="list-style-type: none"> <li>Change the way of doing things</li> </ul>	<ul style="list-style-type: none"> <li>Privatisation, outsourcing</li> <li>Deregulation, suppression of specificities in terms of social protection, job losses</li> </ul>
Process changes	<ul style="list-style-type: none"> <li>Changing the method of change</li> </ul>	<ul style="list-style-type: none"> <li>Introducing a new way to change</li> </ul>	<ul style="list-style-type: none"> <li>Introducing mechanisms that enable change: social dialogue, unilateral decisions etc..</li> </ul>

One of the key differences between the private and public sector restructuring are the management drivers. Arguably in both instances the organisation restructures in order to adapt to the dynamic environment it is operating in and as in the private sector efficiency principles and associated management practices have gained a higher priority in the public sector. However, in the private sector restructuring is frequently managed internally and organically. The same

considerations do not apply in the public sector, as shown in the Belgian paper on restructuring drivers. Here external politically driven stimuli can affect the nature and pace of change more directly and often unexpectedly. As these interventions are based on political imperatives they may have limited legitimacy in the eyes of both the workers affected and managers implementing them.

Restructuring may lead not only to privatization or outsourcing of services but also to organisational innovations. In that regard, some initiatives like those arising in the Dutch home care sector, based on self-managing local teams that operate in the largely privatized and publicly regulated social service sector and claiming to “achieve more healthier and better with less” have to be carefully analyzed and discussed.

Restructuring is not only about how to manage the workforce and working conditions in specific working environments and employment status (civil servants and public employees). It is closely related to visions of the future of public services, the role and distribution of public-private partnerships, the strategic discussion of the scope, requirements and sustainability of public services. As such it should involve a broader range of stakeholders including social partners, the state, service users and the public, a process in which the media can play a pivotal role.

**Social dialogue in a highly unionised sector**

There are quite well-established systems of social dialogue in the public sector all over Europe. But within countries there are often differences in social dialogue between sectors and within sectors: there are differences in the scope and topics covered by social dialogue, the categories of employees covered by social



dialogue with peripheral workers often excluded, the enforceability of collective public “labour agreements” (the non-binding nature of those applying to civil servants often being the case).

Collective bargaining as part of social dialogue has been seriously challenged and often deeply amended in some States (Greece, Portugal, Spain, Ireland, Romania and Italy) by means of explicit unilateral measures imposed by governments forced by EU or international institutions (European Commission, Council, ECB, IMF). Paradoxically, the EU acting as an institutional driver contributed to undermining social dialogue values at national level through its role in the Troika imposing austerity conditions on some member states.

Social dialogue in the public sector, which traditionally has higher union membership, is crucial to mitigate the negative social outcomes of restructuring. However, socially responsible methods of restructuring are no more visible in the public compared to the private sector. Furthermore there is little evidence that the process of social dialogue does – broadly speaking – mitigate negative impacts on workers’ health more effectively. It appears to have made little difference in most instances because of the lack of meaningful exchange and the emphasis put on financial compensation rather than the preventing deleterious effect on workers’ health and working conditions.

Restructuring raises the issue of a transparent social and economic debate about the future of public services, including social partners but also broader stakeholders including the public and service users.

## **Impacts on employment and workers’ health**

Different levels of job security have meant that different approaches to restructuring have had to be adopted in some countries. Where civil servants have a ‘job for life’ change is achieved through natural wastage, redeployment and the creation of a two tier workforce with more temporary, contract and precarious workers.

Overall the effect of both job loss and work intensification, even where there is no redundancy has been greater stress and poorer health for the workers affected. About half of the workers in the German public sector report that their jobs have been restructured and as a result they have experienced work intensification and even though there are no redundancies levels of illness match those in private sector restructuring.

The different effects on different types of workers and whether more or less vulnerable groups in restructuring could be identified was the subject of the German and Belgium case studies. There was evidence that personal characteristics did have an impact on how people coped with restructuring, even though the impact was sometimes different from what was expected.

## **Job transitions**

Managing job transitions emerge a quite a new issue in many countries when it comes to restructuring of public services. In countries like The Netherlands or Germany, redeployment units which operate in some large public bodies appear to be successful in supporting workers through the process of job transitions. The concept is neither well known nor widespread in German organisations but in the cases analysed for the Renewals project it turned out to be quite



helpful in the course of restructuring processes.

Likewise the Swedish Job Security Councils with a wider reach than the German redeployment units offered real help to a range of workers in different sized public sector.

## **2. Policy issues**

Despite the huge variation of restructuring experiences in the public sector across different countries, there are a number of public policy issues which arise from the commonalities and converging trajectories. This is important, because organisational restructuring is both desirable and necessary, if organisations are going to adapt and provide appropriate services, just as much for public services as it is for commercial enterprises. If restructuring is more effective in the European Union in the public as well as in the private sector than in competitor economic regions, then that would give the European Union a significant competitive advantage.

### **EU Commission Green paper and future EU quality framework**

The question of how to tackle and to manage “restructuring” has recently become more salient following the Commission’s Green paper on restructuring and the resolution approved by the vast majority of the European Parliament members. The Green Paper highlights that successful change is crucial to organisations, to national economies and to Europe as a whole. Concrete action on the Green Paper is, however, still awaited. To what extent the “quality framework” prepared by the Commission will cover public sector is a major issue. Social dialogue should accompany major organisational changes, to help mitigate negative

outcomes for employees and thus contribute to the success of change measures by “designing” them in a more socially responsible way. This should be embedded in restructuring in both the private and the public sectors. This section goes on to consider the policy implications that can be drawn from this cahier for restructuring in the public sector.

### **A common way of approaching restructuring across public services and the private sector?**

For a long time the public sector generally was viewed as more stable than the private sector particularly in certain core areas such as central government. In countries such as Germany and France civil servants still enjoy high levels of job security even though temporary employment is becoming increasingly common.

Nowadays, the nature and extent of public service provision vary considerably between States. This is true both within and between services. So for example; local government in the UK provides some services directly whereas some services are outsourced and provided by private companies. Which services are outsourced can vary from local authority to local authority even within the UK. Other essential and highly regulated services, such as the provision of electrical power, are now provided by private companies operating across much of Europe. The European Union (EU) has recognised the heterogeneous nature of the provision of essential services by terming these services, ‘Services of General Interest’ (SGI) and issued a quality framework for SGIs in 2011. These SGIs vary from core public service provision to market-driven organisations such as the power companies and some postal services.

These marketized public services at first glance



have more in common with the private sector than they do with the civil service for example. However even these more market-orientated SGIs are heavily regulated and subject to national and pan-European policy considerations. What SGIs have in common is that they are subject to regulation, and that regulation may be driven by broader policy considerations that have a more direct impact such as climate change. These more market-orientated SGIs will both restructure to adapt to the markets that they operate in, and be subject to broader policy drivers, such as climate change which are likely to manifest themselves through regulatory driven restructuring.

### **Drivers: the primacy of politics**

Of course in those areas that are directly dependent on state funding such as the civil service and local government, policy has a more direct and immediate effect through funding decisions. But there is a commonality in terms of policy decisions impacting on local and national types of SGIs. There is also a convergence as more and more public services are outsourced and run by competing private companies which will have the same dichotomous approach as the large utilities, adapting to market drivers and policy.

Overall SGIs face a common dilemma; unlike the purely commercial sector whatever market considerations drive restructuring, they are also driven by broader political policy considerations, albeit the nature and extent of those considerations vary between services and countries.

Another dilemma arises because of the complicated relationship between public services' workers and the general public; comprising both their clients who may rely on their services, and tax payers who may see them as a drain on their

own resources. Restructuring in public services has a double meaning for the public. Less taxes and government spending for a mass of tax payers which is nowadays helping to shape public opinion. But in parallel, it can reduce the quality as well as the access to public services for particular groups or regions. How can both relations be connected in effective discussion, communication and decision about restructuring?

### **Workers' perception**

A special problem in the public sector is that decisions about services are often political and have more to do with general policy issues than the specific challenges faced by a particular public sector body. So for example, clearly the crisis of 2008 had its origins in the financial sector. For bank workers the implications were often clear and at least directly related to the market within their sector. The austerity agenda that followed as countries sought to balance their current account budget through a recession, involved political decisions at a European and state level about which cuts in public spending needed to be made. For many public service workers there was little obvious connection between the developments in their work and the crisis that was threatening their job. Worse, the decision in many instances was not being taken by their direct employer but by the bodies funding their employer, or even by transnational bodies, which made decisions even more opaque and less understandable or acceptable for workers.

Here there is a further North-South divide. For example, Nordic countries have experienced important restructuring of their public sectors already in the 1990s. Nowadays, workers from countries such as Portugal, Spain and Greece are fully aware that the restructuring of the public



sector they are working for is not even driven by their national governments, but reflects decisions taken at a European Union level and requested by wealthier Member States. In other ones, the national Government is “using” the EU regulations/requirements for legitimising the case for particular types of restructuring, such as permanently changing the top management for political reasons. As workers and managers feel more and more alienated from the decision making process so their stress will increase, as they feel their views are ignored or at best hardly taken into account in the restructuring process. As a consequence the trust of EU and national workers/EU citizens on the EU institutional capacity has drastically decreased as EU surveys and barometers show.

The external policy drivers (like technologies, climate change) for restructuring have also a profound and substantial effect on the way in which restructuring is perceived by public service workers. For them, those drivers often have a double consequence/identity:

- as drivers for restructuring in society at a whole, where public services often play a role cushioning effects, facilitating change and managing (bad consequences) for certain groups of civilians ;
- as drivers for restructuring in their own workplaces and organisations.

Often public workers have the feeling their interests as employees come in second place or are completely ignored. In those cases they tend to see restructuring as a process governed far from their workplaces; a process where they have no control and worse where their interests have not been taken into account.

### **Exemplary practices?**

Despite widespread well-established systems of social dialogue in the public sector across Europe, there is sadly plenty of evidence that both the management levels of many organisations and workers’ representatives (unions and works councils) who are faced with restructuring tend to “muddle through” instead of making a critical review of their resources and of their options in social conflict-partnership.

For a long time the public sector was also widely perceived as an exemplar of good employment practices, at least because of high job protections, well-established mechanisms for social dialogue and comparatively high levels of union membership. This is not universally the case and some SGIs have developed into more dynamic market-orientated organisations, as for instance in the case of the power utilities. However, the companies providing these more market-driven services of general interest have, by and large, retained their mechanisms for social dialogue and high union density.

However the evidence from the previous work on the effects on health of restructuring is that workers become more stressed and therefore more prone to ill health where the trust with the employer breaks down as a result of lack of transparency, meaningful dialogue or support. It is important to emphasise that for dialogue to be meaningful in this context does not mean consultation as it should be more than simply being told what is being done. Furthermore, improving well-being at work in the public services requires working on several dimensions: material, organisational and symbolic, the latter being closely related to the ethos of public service. Last but not least, social dialogue in the public sector cannot ignore citizens and service users voices, especially when arising from legitimate and accountable



representatives. This is still a major challenge for public sector social partners to take it “on board”.

### **3. Policy conclusions and proposals**

While SMEs have been heavily impacted by the crisis in terms of company mortality, job reduction and employment, innovative and less painful solutions are also taking place. Our project identified different kind of such improvements which could be classified in two categories:

#### **Building ‘employer-ability’ in the public sector**

Employment practices in the public service have been seen as exemplary in many regards; this is no longer the case. Nowadays, the management or lack of effective management of restructuring is in large part responsible for this deterioration or perceived deterioration in employment practices in the public services, as precarious employment increases and workers become more stressed and less motivated. Certainly change cannot be avoided and the adaptation to change is crucial for the competitiveness of the organisations, the national economies and Europe. However, many of the negative outcomes can be mitigated or even avoided by considering the change of working conditions and demands in times of restructuring. This is especially true for the public sector which provides essential services to many of the most vulnerable members of society. This has to be considered in terms of managing change successfully and socially responsibly. Public employers should urgently develop their employer-ability and this requires a constructive approach of all of its stake holders. Some of the key elements of employer ability are discussed below.

#### **Promoting meaningful and strategic social dialogue in the public sector**

Despite high union density and a multiplicity of formal mechanisms all over Europe, social dialogue is not satisfactory in public services and lacks consistency, especially when it comes to restructuring. What is needed is a system that encourages and fosters more strategic thinking and behaviour by social partners so that they deal with restructuring in a more responsible way, retaining or rebuilding the psychological contract, including a strong public service ethos. Social dialogue has to become a catalyst of a new more anticipative and responsible approach towards restructuring. We believe it is important to anticipate and managing restructuring in the public sector more carefully by developing:

- Assessment and review of social dialogue mechanisms in order to improve their meaningfulness and consistency; motivation and incentives for better involvement of public employees and their representatives in improving the quality of services to be delivered, in innovations and changes to be implemented in their organisations;
- Appropriate processes and frameworks able to integrate citizen, users, consumers and their representatives in order to build common understanding and develop innovative initiatives;
- Awareness among social partners of the health consequences of restructuring and building the capacity to support dialogue and bargaining on those issues;
- More systematic training of social partners in order to build new competencies and skills on restructuring issues.



### **Developing a worker impact assessment**

If restructuring is to be improved in the public sector, workers need to feel empowered in a situation where they may be feeling particularly powerless. However, the bigger question is one of communication and dialogue. In the public sector this means ensuring the social partners have the space to discuss policy and that policy and the ways in which it is implemented specifically takes account of the effect restructuring will have on workers.

One possible approach would be to require public bodies to undertake an impact assessment similar to the idea of a risk assessment for health and safety. This is already the case for Environmental impact. The basic concept is that policy and practice should be formulated having regard to the impact it will have both in the short, medium and long term on a specific stakeholder.

Any impact assessment would only be as useful as the credibility it had with workers. Essentially that means that an impact assessment should be a joint report produced by the social partners with specific regard to the effect on health of any proposed changes. Ideally the impact assessment should lead to plans at service sector and enterprise level for implementing the restructuring in a transparent and fair way, with specific support mechanisms for workers. In other words, social dialogue should be integral to the impact assessment process, including follow-up measures and ex-post evaluation concerning the goals pursued by the restructuring process. Given the relative strength of union membership in the public sector this should be relatively straightforward to achieve in the public sector.

Beside ex-ante assessment, ex-post evaluation are equally needed to measure the effects of restructuring processes and operations as a whole in terms of external and internal efficiency, of improvements of the quality of services as well as

in terms of employment and working conditions. This is why a three-step worker impact assessment is needed.

### **Organising responsible restructuring and job mobility**

Depending on the national systems of legislation and public sector characteristics there are (core) groups of workers who still have considerable job security. However there are a growing proportion of people who lack this security due to changes in the contractual conditions in the public sector so that the workforce is two- or even multi-tier in terms of job security. This requires new approaches to public employment and especially to job to job transitions. Practices such as mobility platforms, redeployment units, lifelong learning, counselling and support for both managers and workers have been quite successfully developed within the private sector: they should become a source of inspiration for the public sector.

However relatively little good practice from the private sector has thus far crossed over into the public sector. These necessary developments have to be embedded in the ethics and constraints of the public sector to be effective and appropriated by its main stakeholders. The future EU “quality framework” on anticipating and managing change has to both include the public sector and take into account its specificities.

Such transitions and changes are not limited to those at risks in terms of job security: transitions and mobility have to be better developed even for “core workers” in order for them to develop their skills, employability and opportunities and to avoid the risk of being trapped in “golden cages” of secure yet unrewarding work which has severe consequences for their motivation, performance and health.



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