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# Human Resources in the Recession: Managing and Representing People at Work in Ireland

## Executive Summary

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## Chapter 1

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# Introduction



## Introduction

Ireland is currently in the grip of the most serious economic recession in its modern history which is having profound effects on the labour market and on the management of human resources. Trade unions charged with defending their members pay and employment security face challenges without precedent in living memory. Other European countries affected by the financial, fiscal and economic crisis face pressures similar to Ireland's, but the Irish recession is among the most acute of all developed economies. The effects of the Irish recession on the manner in which people are managed at work and on how they are represented by trade unions is the subject of this study.

The content of the study is summarized here chapter by chapter, following the broad structure adopted in the complete report document.

**Kieran Mulvey**

Chief Executive, Labour Relations Commission



## Chapter 2

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# **Recession, the Labour Market and the Conduct of Human Resource Management**



## **The impact of the recession**

Whether judged in terms of falling employment, rising unemployment (standing at 13.6 per cent at the end of 2010), redundancies or insolvencies, the labour market activity in Ireland has experienced the full ravages of the downturn. Pay has declined significantly in the public service. In the private sector, average earnings held up overall until 2010, when a modest decline in average weekly earnings has been recorded by the CSO. The economic downturn has led to the collapse of the formal national system of social partnership.

## **The Irish labour market experience in comparative European context**

The economic crisis has been felt across Europe. Since autumn 2008, EU unemployment has increased by 2 percentage points to 9.2 per cent as 5 million people lost their jobs. Some of the member states have been more badly hit by the downturn than others. Of the older member-states, Ireland, Spain, and the UK have been the worst affected.

In response to the economic downturn, most member-states have adopted active employment policies designed either to encourage employers not to lay off employees or to provide more comprehensive help for those who lost their jobs. While most governments have committed themselves to some form of extra public expenditure on infrastructure programmes, others have sought to stimulate demand by cutting taxes, particularly indirect taxes, and some governments have provided subsidies to private sector companies to help meet the challenges of adverse economic conditions through measures like short-time working.

Training has been a further measure used by governments to reduce the impact of the economic crisis, although not as extensively as might have been expected. Efforts have focused particularly on developing apprenticeship schemes that combine training with work experience. The employment policy response by the Irish Government to address the labour market fall-out of the recession is more muted than in a number of other member states. A number of schemes have nevertheless been launched to create and maintain employment.

## **The effects of recessions on HRM**

There has been much debate as to whether recessions lead to transient, if otherwise significant changes, or cause profound and lasting disjunctures in the ways firms manage human resources and relate to trade unions. A case can be made that recessions in Ireland to date – and especially the deep and prolonged recession of the 1980s to early 1990s - have had more sustained impacts on employment relations through their influence on macro-level developments in institutions and arrangements, than on micro-level engagement between employers, employees and trade unions in firms and workplaces.



## The effects of the current recession on HRM

It is possible to identify three strands of argument in the literature as to the effects of the current recession on human resource management. The first suggests that the recession will have a cataclysmic effect on the HR function or even on the viability of long prevalent employment models, with one study suggesting that numbers working in HR would be cut disproportionately compared with other support functions, while 'transactional' HR processes would be increasingly relocated to low-cost countries. Another claimed that the global crisis in the context of the ongoing globalization of businesses would 'decimate HR'.

The second (which represents the dominant perspective among the HR 'commentariat') suggests that the recession will both increase the stature and influence of the HR function and deepen the appeal and prevalence of HR practices consistent with the 'high-commitment model', whose features are widely understood. The third strand, often grounded in empirical reviews, is much more measured and circumspect regarding whether changes arising from the recession are fundamental or likely to be of lasting significance. In this strand of commentary, changes are often understood to be pragmatic, eclectic and incremental in nature.

### HRM practices in the recession

The literature on the policies and practices used by HR managers to help firms adjust to hard economic times is diffuse, but can be categorised under a series of headings, including wage adjustment; employment adjustment; re-organisation of working time; workforce stabilization; employability; voice and engagement; and process or product innovation.

The literature on efforts to adjust wage rates downwards inside unionised organisations when recession strikes is dominated by the theme of concession bargaining. The term involves union 'give backs' to management in the form of freezes or even cuts in pay and benefits. Concession bargaining is likely to be more successful if based on openness and transparency, equality of sacrifice and trade union gain - where companies agree to some trade union demands in return for accepting significant concessions. These gains can include some form of financial participation such as profit sharing or some type of employment security programme. These underlying principles of concession bargaining can also apply to non-union organisations.

Employment adjustment can be secured by reducing employee numbers or by increasing working time flexibility or a combination of the two. An option open to an organisation seeking to avoid job losses is to develop a workforce stabilization programme. A number of specific policies fall within this category, such as a temporary layoff scheme for employees; in-sourcing production that had previously been outsourced to suppliers or other companies; employee redeployment and



staff sabbaticals or similar initiatives. Firms can also re-organize working time to avoid making redundancies, curb overtime, or introduce short-time working.

Firms may also respond to the recession by increasing numerical flexibility: greater numbers of part-time and temporary workers are employed instead of full time workers in an effort to match more closely company employment levels with changes in demand for the company's products or services.

Keeping employees regularly and fully informed of the organisation's commercial position as well as management's plans is considered indispensable to maintaining employee commitment and engagement when adjusting to adverse times. Intensive communications create a strong signal that management are seeking to develop policies which address the interests of employees. Allowing employees or their representatives to be actively involved in the formulation and implementation of organisational restructuring plans, is likely to result not only in shared understandings being created between employees and managers, but also in effective joint action to restore profitability.

Shrewd business thinking suggests that in recessionary times firms should maintain, if not increase, innovation activities designed to improve organisational products or processes. Such thinking has seeped into HR approaches towards the recession i.e. that bad economic times should not halt efforts aimed at remodelling the HR function inside the organisation. In concrete terms, this means that HR managers should continue to create a leaner HR department by outsourcing various HR functions, particularly those of a transactional nature.

### **HR practices in Ireland in the current recession: available evidence**

According to the 2009 National Workplace Survey conducted by the National Centre for Partnership and Performance (NCP), the majority of employers questioned had a fairly bleak view of business conditions: about two thirds considered business times to be bad and unlikely to improve in the foreseeable future. However, what also emerges from the survey is an acute awareness amongst many employers that in responding to the crisis they have to develop strategies that combine initiatives to reduce costs with measures to improve innovation and product/service quality.

From other sources there are indications that firms to some degree were favouring some form of short-term working time over pay reductions. With regard to pay adjustments, aggregate figures produced by the Central Statistical Office suggest that in 2009 and most of 2010 public sector pay has fallen while overall pay in the private sector appears to have stayed more or less static over much of the period, a modest decline in average weekly and hourly earnings of less than 1 per cent having been recorded over the 12 months to the third quarter of 2010. In relation to private sector pay it is hard to derive an accurate view of what is going on behind these aggregate figures, particularly with regard to how extensive pay cuts or pay



freezes have been. Pay reductions have sometimes been introduced on a tiered basis rather than involving across-the-board cuts, involving higher wage-earners in firms experiencing larger reductions than lower wage earners. In unionised firms, where an agreement has been reached to cut pay, claw-back clauses have also sometimes been agreed which lay down that employees will be able to restore or even improve their pay when firms return to profitability. There is also a sizeable group of private sector companies where pay was not cut or frozen, and may even have been increased - although often marginally. There has been a fairly widespread incidence of pay reductions and freezes, which distinguishes this recession from the last serious business downturn in Ireland during the 1980s.

On the whole, there is a relative absence of reports of innovative HR approaches to the economic recession. There is little evidence, for instance, of firms introducing greater training and up-skilling programmes for employees as an alternative to redundancies or even short term working for that matter.



## Chapter 3

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# Human Resource Management in the Recession: Results of Survey of Employers



Targeting private sector and commercial semi-state firms with fifty or more employees, the survey of employers set out to assess the HR response of employers to the recession. The data analysed in this chapter come from a survey of 444 managers with responsibility for human resource management. The results were weighted according to size and sector so as to be representative of the population of firms and of the workforce in firms of the size and sectors covered.

### **Impact of the recession**

Corroborating the general view of the severity of the Irish recession, the majority of firms in the survey reported revenue and employment losses over the period in question. All sectors felt the impact more severely in 2009. More than six out of ten firms had significantly restructured their business as a result of the recession.

### **HR Measures undertaken to address the recession**

The survey results show that firms took a very versatile approach to the recession in that they implemented a wide range of HR practices to address its severe effects and many challenges. These practices are analysed under four headings – pay and pensions measures; headcount and staffing measures; changes to HR systems and functions; and working time changes.

The majority of firms (more than seven out of ten) froze wages and salaries for some or all staff, half cut wages and salaries for some or all staff, while more than half cut the bonus for some or all staff. Just over one in five firms made changes to pension arrangements for existing staff while a smaller number did so for new staff.

Reductions in headcount and changes to staffing arrangements were achieved through a variety of means. Freezes in general recruitment were implemented in around half of the firms in the survey, as were compulsory redundancies. Almost a third introduced voluntary redundancies. More than four out of ten firms redeployed staff to new positions or product lines within the business. The most common working time measures adopted were reduced overtime and an increased use of short-time and part-time working. Over a quarter of firms reported matching working time arrangements better to the pattern of demand faced by the business.

### **The conduct of HR in the recession**

Communicating the demands of the business to staff has become a more important part of the HR role and the majority of survey respondents agreed that the business role of HR has been strengthened. Senior managers are also seen to have become more active in communicating HR actions (two-thirds of firms agreeing with this). The evident strengthening of the business role of HR needs, however, has to be seen in context. Only around a third of firms agreed that HR has been the biggest influence on the choice of measures adopted by the business to respond to the recession and just over a third of firms also agreed that the



influence of HR had been restricted to the implementation only of measures already decided upon by the business.

In terms of employee involvement and engagement, more than half of the firms agreed that employees were actively involved in developing options for responding to the recession, and a similar percentage (52.3 per cent) agreed that the business had undertaken specific employee engagement measures.

### **Combinations of HR measures adopted by firms**

In examining how firms combined HR response measures, a distinction can be made between 'hard' HR response measures focused on containing or reducing costs, and 'soft' HR response measures focused on maintaining motivation and commitment.

The research revealed two broad patterns of response in terms of the manner in which firms combined hard HR response measures. About half of all firms have implemented what were described as *general HR retrenchment programmes* comprising pay freezes, curbs on overtime, short-time working, redundancies and more rigorous work regimes. The rest implemented fewer such measures, focusing in the main on pay freezes, curbs in overtime working and greater rigour in the management of work regimes. Firms severely, or very severely, affected by the recession were more likely to have implemented general retrenchment programmes.

Turning to the manner in which firms combined such hard response programmes with soft HR measures concerned with maintaining the motivation and commitment of staff, the research found that firms commonly sought to couple hard response programmes of either kind with some or all of a series of soft response programmes: a greater emphasis on communications, implementing specific measures to promote employee engagement and involving employees in the development of measures for responding to the recession. Again two broad groupings of firms could be distinguished. One group, representing more than 7 out of 10 firms commonly combined hard response programmes with a range of soft HR measures, while another group allied more emphasis on communications with hard response programmes – many firms in this group eschewing the use of a wider range of soft response measures. General hard HR response programmes had a lower probability of being combined with an extensive range of soft HR response programmes.

### **Changes to the HR function and to HR systems**

While the proportion of firms reporting that they had restructured the HR Department (about 15 per cent) is not insignificant, compared with the proportion of firms that had restructured their businesses in some way (about 64 per cent), the level of restructuring or organisational rationalization or reconfiguration of HR appears relatively modest.



About 3 in 10 firms reported reducing the number of people working in their HR functions. Considering that two thirds of all firms reported general workforce reductions, this is not surprising and suggests that HR functions were often spared the cuts in headcount prevalent among employees in general.

In terms of other changes to HR systems, the main changes identified by respondents related to training issues and to the stricter implementation of HR policies. More than half of the firms in the survey cut the training and development budget and around a third increased the use of internal staff for training and development. Four out of ten firms trained staff for new roles within the business.

The survey also indicated a high level of agreement concerning the more stringent implementation of HR policies, with more than six out of ten firms (61.2 per cent) agreeing that greater attention is being paid to implementing HR policies surrounding discipline, attendance and time-keeping.

### **Relations with unions**

The majority of firms appear to consider the participation and contribution of unions during the recession in a fairly positive way. More than six out of ten firms stated that they had actively engaged with unions in developing HR options with which to respond to the recession and a majority disagree (58.1 per cent) that the actions required to respond to the recession have been so urgent that there has been little time to consult or negotiate with trade unions.

While approximately equal numbers of respondents indicated that the unions had and had not impaired the firm's response to the recession by insisting on protracted and detailed negotiations, more respondents believed that unions have been realistic and constructive in engaging with the business in response to the recession (45.6 per cent), than not (31.1 per cent).

Unions however, do not appear either to have been able to exert much leverage on managements' favoured measures for responding to the recession. Only a very small number of firms (5.1 per cent) agree that unions persuaded the business to change measures initially decided on to address the recession (e.g. from redundancies to short-term working), or that they secured agreement on financial 'claw-backs' for their members when business conditions improve (5.6 per cent).

### **Top three most effective HR practices in the recession**

Survey respondents were asked to describe briefly and to rank the three HR practices they considered to be most effective in helping them manage the recession. Communications and information disclosure was listed and clearly ranked as the most effective HR practice in helping firms manage the recession. Despite this, fewer firms appear to have considered engaging or involving employees, or indeed trade unions, as being the most effective way to address the



impact of the recession – this practice being ranked third in the rank-order of most effective practices.

After communications, the next most effective area for HR to be involved was helping to create efficiencies and institute cost control measures in the business. The measures ranged from reviewing remuneration policies to ensure affordability, to implementing cost reductions in terms of wages, salaries, bonuses, pensions and fringe benefits and redundancies. A range of measures focusing on the alignment or better alignment of HR with the business agenda also receives endorsement.

What emerges from the overall pattern of results is a picture of many firms attempting to balance 'harder' and 'softer' aspects of HR management in response to the challenges they have faced, with HR processes and systems changes accompanying hard measures directed at the immediate bottom-line. They have also sought to balance the pressure to make immediate savings with a concern to provide for the medium-term by continuing to recruit, promote and retain staff.



## Chapter 4

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# HR Managers: The Effects of the Recession and the HR Response



Thirty HR managers participated in five focus groups conducted in Dublin, Cork and Galway. They worked for a diverse group of companies, across a variety of sectors and sizes. The focus groups included Irish-owned (some were multi-nationals) and foreign-owned multinationals, unionised and non-unionised companies. All but one of the managers had direct responsibility for HR.

### **Impact of the recession**

Participants identified a range of commercial pressures bearing on their own businesses which included - downturns in sales and profitability, the cost and availability of credit, falling share prices, changes in product ranges, and higher price sensitivity on the part of consumers. Some firms had to deal with the effects of closures by their major customers, and yet others (from sectors relatively insulated from the recession, such as pharmaceuticals and medical devices) saw falling sales volumes and demand for high-end products. As a result of these pressures, HR managers had commonly experienced acute pressure on costs, headcount and productivity levels.

A number of multinationals also saw the recession as aggravating competitiveness difficulties already evident prior to the recession. These difficulties were particularly related to the labour cost competitiveness of Irish subsidiaries as compared to other low cost locations, and the challenges involved in winning future production and investment for Irish subsidiaries.

### **HR's management of the recession**

Virtually all of the HR managers participating in the focus groups had been involved in initiatives concerned with managing retrenchment. Cuts in payroll budgets were widely remarked upon, as were pay freezes and freezes on pay increments and on promotions. Bonus earnings too had been eliminated or deferred, or heavily curtailed in some cases where bonuses were related to sales figures, often having a considerable impact on pay.

Reports of headcount reductions were widespread. Freezes on recruitment were widely instituted, backed in some cases with the utilization of temporary or contract employment to add resources where controls on recruitment were 'very stringent'. Voluntary redundancy programmes were often over-subscribed, sometimes, it was thought, in the fear that the company might not survive. Voluntary and compulsory redundancy programmes had been used serially in some cases to reduce headcount in successive waves of responses to falling sales and corporate restructuring. In other cases HR managers had felt they had no alternative to what one described as the 'nuclear option' of sizeable compulsory redundancies that comprised 25 per cent of headcount.

The use of multiple measures or packages of measures to control pay, headcount and labour supply was common - redundancies were often combined with other



measures such as pay freezes or deferred pay rises, or reduced working time. Some cost cutting measures involved successive sets of initiatives where measures and priorities changed as programme outcomes became clear and commercial circumstances evolved.

At the same time as pay cuts or pay freezes were being put in place, some firms continued to operate bonus schemes or 'targeted pay adjustments' on performance or retention grounds. Other firms identified challenges in managing staff 'complacency' and of ensuring that staff did not assume that things would continue to remain as they were.

### **Recruitment**

The majority of firms were not involved in recruitment in the recession, in stark contrast to the economic boom period. Some firms, however, were hiring new staff with specific skill sets, but found it difficult to persuade potential recruits to move to the company because the recession appeared to have made people more risk averse.

### **Re-deployment**

Redeployment seemed more common in non-union than in unionised firms, with one ICT firm, affected only to a limited degree by the recession, reporting redeployment to be 'part and parcel of everyday business reality'. In responding to the closure of a plant producing a discontinued product line, a pharmaceutical firm, consistent with its HR policy, had saved several hundred jobs by redeploying staff to other jobs.

### **HRD**

While training provision and training budgets were cut in many instances, this was not done in all firms. Where budgets were cut and only partial training carried out, it often involved the re-training or cross-training of staff to undertake new tasks within the firm. In other cases, the training budget was concentrated on talent development and on high performers.

### **Work intensity**

A number of contributors to the focus groups indicated that work intensity had increased in that many employees were working harder for less money in the recession, driven by their awareness of the external environment and of the difficulties that firms were facing.

### **Managing performance**

A number of HR managers indicated that performance had been managed more rigorously in the recession, as were disciplinary issues. Those employees that were considered to be 'poor performers' were now being pursued more insistently.



## Employee engagement

While a number of HR managers, on the one hand, were actively involved in implementing headcount reductions and pay cuts, on the other hand they were also struggling to keep employees motivated and committed. This might have involved the introduction of specific programmes or initiatives concerned with promoting engagement or re-engagement, or found expression in a more conventional concern with preserving or promulgating values like ‘trust’, ‘honesty’, ‘transparency’, ‘integrity’ and ‘fairness’.

## Relations with unions

Little serious disaffection was reported in staff or union responses to the measures firms had undertaken to respond to the recession, with employees and unions in general appearing to have accepted the state of affairs that pertained. However, this state of affairs was not arrived at without some serious negotiations, and after a number of disputes had been referred to the Labour Relations Commission. Some HR managers complained about the time required to win an acceptance by staff and their unions that things had to change. Unions might also retaliate against what they viewed as excessive management measures.

Focus group participants agreed in general that few specific concessions had been sought by or agreed with unions in return for agreeing headcount reductions or pay freezes. Pre-existing good relations, as expressed for example in workplace partnership arrangements, were seen as paving the way for effective negotiated responses to the recession. Asked whether the collapse of partnership at national level had led to unions adopting a more aggressive or adversarial posture in their dealings with firms, the HR managers responded that this had not been their experience, and nor did they expect it to happen – although several thought that the industrial relations outlook had become more difficult or uncertain.

## Aligning HR with the business agenda

There was general agreement that dealing with the ‘business agenda’ in the recessionary environment presented a much more difficult challenge for HR than when recruitment and retention of staff had been the main challenge for this function. The predominant view of participants was that HR provided leadership in this environment and that the agenda now addressed had brought HR into mainstream business decision-making. For most of the participants, the influence of HR was central in terms of shaping the measures firms had adopted to respond to the recession. However, some believed that their influence within senior management extended more to the implementation of business decisions already decided upon. Part of the new role of HR involved providing advice and mentoring to managers on dealing with the HR implications of business decisions, often involving HR dealing with requests for advice from line management.



## Chapter 5

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# HR Managers – Good Human Resource Management in the Recession



Participants in the focus groups were asked to give their views on what constituted good human resource management practice in the recession.

### **Communications**

Virtually all of the focus group participants stressed intensive communications with employees and unions as being critical to the effective management of pay and headcount reductions. It also appeared to be the case that one-way communications from firms to their workforces dominated the picture, although in some instances provision was also made for two-way or upward communications from employees.

A wide variety of communication mechanisms were used, such as town hall meetings, CEO and senior management addresses, staff consultation forums, focus groups, regular email briefings, face-to-face communications and communications with unions, etc. Even though regular meetings with unions went ahead, many unionised firms sought to rebalance their communications activities in favour of direct communications with their employees and away from communication via trade unions.

The HR managers were at one in their view that harnessing senior management support, sponsorship and ‘visibility’ with respect to changes being sought was pivotal to their smooth implementation and acceptance by the workforce. When the message ‘comes from the top’ or from the ‘horse’s mouth’ the message was seen to carry more credibility.

### **Advocacy of values and policies**

An area identified for HR leadership was advocacy of HR values and formal company HR policies and ensuring that managers in general operated in a fair and proper manner in responding to commercial pressures. The focus group participants varied in terms of the extent to which these areas were stressed.

Agreements with unions or new measures related to the tightening up of disciplinary procedures or performance standards often posed challenges for line managers and supervisors who required training to implement and manage the new measures and standards in the correct way.

Other HR values highlighted by the focus group participants related to proper treatment of staff made redundant, through the provision of outplacement advice and facilities. Other values deemed significant were ‘honesty’, ‘integrity’ and being ‘honourable in dealings’. Many focus group contributors also pointed to the importance of ‘trust’, and also mentioned being ‘forthright’ and ‘fair’.



### **Engaging with unions**

In terms of how unions had responded to the pressures presented to them by firms, the predominant view among the HR managers in unionised firms was that unions had acted ‘pragmatically’, were conversant with the ‘realities of the situation’, showed ‘more realization of the reality of the world’ and had ‘engaged constructively’. Some HR managers believed that union officials commonly appreciated problems to a greater degree than their members, with resulting problems in ‘selling their message to their members’ or ‘bringing their members with them’.

Information was commonly shared with unions, and sometimes this was seen as marking continuity with practice before the recession. Early and full information disclosure during the recession was also regarded by some as a critical aspect of good practice in engaging unions.

A number of focus group participants also expressed frustration at the slowness of traditional collective bargaining in the face of rapid commercial changes that required a prompt response. There was a perception that the ‘normal’ pace of negotiations would not work in the exceptional conditions that were encountered in the recession.

Some focus group participants observed that it had been their experience that unions were extremely reluctant to negotiate downward adjustments to pay and conditions as a way of preserving jobs and significantly more willing to countenance redundancies and other measures to cut labour supply.

### **Having regard to fairness**

A number of HR managers stressed the importance of having regard to fairness in formulating and negotiating concessions in response to the recession. This was practised by dealing with all staff, represented or non-represented, in the same way, and through ‘educating’ staff to understand why certain issues were covered in existing collective agreements and could not be altered without successful renegotiation.

### **Professional and personal networks**

Some HR managers indicated that during the recession there was greater use of professional and personal networks to share information, provide briefings in key areas such as handling downsizing and redundancies and to identify models of good practice, than in previous years. This use of networks was both formal and informal.



## Chapter 6

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# Trade Union Officials: Representing Members in the Recession



Chapter six examines the views of union officials who participated in a series of focus groups which took place in Dublin, Cork and Galway. The seventeen participants represented employees working in the private, commercial semi-state sectors and, in some instances, the public sector, and represented employees in a broad range of sectors.

### **Impact of the recession**

While it was ‘business as usual’ for a number of firms, in that both unions and management sat down together and attempted to work out how best to solve the difficulties facing them, all of the focus group participants highlighted significant new difficulties and challenges that had arisen for them as a result of the recession.

A major negative impact of the recession was the change in the union relationship with the employer. Where good relationships had existed between both parties in the past, unions were now sometimes being by-passed in a number of firms. Unions were finding it difficult both to get employers to come to the table, and to resist unilateral action being taken by them.

A number of factors contributed to this new relationship with employers according to the focus group participants. These included the current state of the labour market, which appeared to give some employers licence to be opportunistic; the speed and depth of the recession resulting in companies ‘wanting implementation with immediate effect’, leaving unions little time to tackle the issues, develop a strategic approach or consult with their members.

A third factor contributing to the undermining and destabilizing of the traditional union–employer relationship, according to focus group members, had been a change in business culture and ideology. Business at national level has pulled back from social partnership, and this, in the unions’ view, has given employers licence to ‘do their own thing’. The focus group participants stated their belief in a strong anti-union ideology abroad now, often supported by the media, and that this anti-union ideology has filtered down as far as HR.

Unions also stated their belief that employees were now being perceived as only costs ‘in the recession and the only responsibility employers have taken is to survive and be competitive... [pursuing] a maximum, long term profits agenda.’ ‘People at the top now see their staff as a liability who could be replaced from an open market much cheaper than they’re being paid’.

For their own part, unions believed that a gap had developed under social partnership between unions and their members in that members did not see the link to the work unions did on their behalf at national level. According to the focus group participants, the recession has highlighted the need for them to review their relationship with their members and to try to engage more directly with them in the workplace.



## Collective bargaining in the recession

In terms of bargaining positions, while employers had predominantly pursued adjustments to pay and headcount, unions had focused on protecting jobs and preserving terms and conditions of employment.

The focus group participants indicated, however, that the recession had brought out different responses from employers in terms of both ‘good’ and ‘sharp’ practices. Good practice involved the union being called in by the company and being asked to work with them to achieve a solution. Sharp practice, according to the participants, involved the companies ignoring normal industrial relations processes and procedures (including disciplinary procedures) and/or breaking existing agreements. The focus group participants were having difficulties in deciding which companies were really in trouble and which were ‘trying it on’, whether the motivation was ‘repositioning for a recovery or to dilute wages’.

There was a view among the focus group participants that when engagement occurred with employers, often it was only to rubber stamp cost-cutting measures already decided by management. Unions were also concerned that companies were adopting an ad hoc approach to reducing headcount. In some sectors, where voluntary redundancy or early retirement schemes were offered, there appeared to have been little long-term consideration of the implications, relating to either the loss of skills, and/or the distribution of work among the remaining staff.

According to the focus group participants, there was little evidence of innovative responses to the recession by the unions themselves – it was more a case of ‘just the basics’. For the most part too, few reciprocal concessions were gained by unions in return for cost-cutting measures apart from some individual gains made in specific companies. Unions had focused on ‘consolidating what we have’ on saving jobs and consolidating the rates of pay of their members and getting this written down into an agreement.

The individual gains that unions had achieved included the provision of a profit sharing scheme for the future in a retail company, a corresponding increase in leave where a pay cut was made in a printing and publishing sector firm. Growing density and being able to organize workers was achieved in another case, a company agreeing to look at a partnership agreement with the union in another and gaining union recognition in yet another firm.

## Features of good HR practice

In response to a request that they identify the features of ‘good practice’ from the union perspective, the focus group participants pointed out the importance of honouring existing agreements and procedures and not imposing unilateral change. They also indicated the importance of engaging in meaningful consultation and showing a willingness to explore alternative solutions.



The focus group participants emphasized the value of good communications, in particular the importance of a good communication channel with the union ‘overtly confirming the union as a stakeholder’. The unions were of the view that a willingness on the part of the company to provide financial transparency, to open up their books to the union or allow the union to appoint somebody to look at company accounts, would indicate a positive HR response. Where this had happened, unions found that it helped to get members to buy into agreements. Allied to this notion of financial transparency, the focus group participants expressed a view on the importance of the company having a good business plan for the future. A business plan for two to three years down the road, they indicated, would help ensure confidence that the company was not just taking a short-term view but knew what they were doing.

Another feature of good HR practice, according to the participants, was the inclusion of agreed mechanisms to allow for future reviews of any agreement reached in the recession. They felt that ‘if workers by agreement are prepared to take some pain now during this difficult time, then there needs to be a recognition that when the good times come back whatever they’ve given has to come back with it.’

### **Drivers of good practice**

The participants generally agreed that where strong HR structures, policies and leadership existed, a better chance for real negotiations and co-operation existed. The union representatives stated that they also needed HR to uphold existing agreements in the face of challenges and to both authorise and corroborate the union’s role in these.

The focus group participants were of the view that a good HR manager would be someone that ‘recognized the trade union as a stakeholder in the organisation’. The pre-existence of good relations with unions in an organisation, along with embedded practices for consultation and collective bargaining (including basic facilities for the professional conduct of representation), also contribute to good practice in employee relations. The participants also mentioned the importance of respect for the input of employees and their representatives.

Another factor mentioned by the participants was the effect of ‘the personality at the top of the organisation and their attitude to staff.’ Where the CEO’s attitude is respectful and caring towards staff, this will have a positive influence on the status of collective bargaining in an organisation.

Public service union officials believed that they were not exempt from being marginalized by employers ‘with the Government walking away from agreements’ according to the focus group participants. Nor was the notion of ‘sharp practice’ absent from this sector, they believed.



## Chapter 7

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# **Containing Job Losses and Staying on Course at Irish Life and Permanent, Sherry FitzGerald and Dublin Airport Authority**



This chapter and the next examine in detail six companies and their responses to the pressures unleashed by the recession. The series of cases examined are regarded as instances of good practice in responding to different sets of recessionary pressures, often incorporating significant innovative features. They were chosen because they had sought to accommodate employees' interests in responding to the recession and because the parties to employment relations succeeded in all cases in securing or strengthening the businesses affected, by finding accommodation commonly involving significant changes to the operation of businesses, to terms and conditions of employment and to work practices. The first three case studies outlined in the report aimed to minimize job losses and protect employment.

### **Case Study 1: Irish Life and Permanent**

This case study charts the ebb and flow of efforts in IL&P to adjust to the onset of the financial crisis in Ireland, culminating in measures that included incentivised career breaks, a voluntary redundancy programme, agreed pay rises and the freezing of service-related increments. In responding to the crisis, the firm sought to institute new arrangements for the conduct of industrial relations with the trade unions representing its employees, to operate through a unitary HR function (then in the process of being created), and to win agreement on a series of cost-saving measures.

Although the recession adversely affected Irish Life and Permanent, its impact was not nearly as crippling as on other Irish banks, mainly due to the fact that the organisation had not got involved in the lending of large sums to property developers, but had stayed within its main mortgage and pension lines of business. However, at the same time, the company faced serious commercial problems.

In early 2008, the company was able to reduce costs by introducing a ban on recruitment and not renewing about 30 short-term contacts. As things got worse, employees were offered up to €20,000 to take a two year career break and up to €35,000 for a three year break. A total of 140 employees out of the bank's total workforce of 2,500 took up the offer.

Later in 2008, following a massive drop in profits, it became apparent that more had to be done across the organisation to achieve a better balance between revenue and expenditure. The company decided that it would need to introduce a pay freeze in 2009. The HR team also sought to create a single bargaining process within the organisation to obtain union agreement for the pay freeze policy and other related matters. In response, the unions were eager to gain full information about the extent to which the company was unable to award any pay increases and to obtain guarantees about job security and other working conditions.

In an effort to progress the single bargaining process, the company created a facilitation process to allow for a full exchange of information and views and appointed an external third party expert to manage the process. Management provided the unions with an unprecedented level of information, including financial data on a broad range of topics. These efforts by management to highlight the



difficult commercial circumstances that the company was experiencing paid off as a new openness and candour developed between the two parties.

It took some time but eventually an agreement was reached between the parties. On pay, the company agreed to give employees a 2.5 per cent increase in 2009 and 2010. However, the company would give no increments or profit share bonuses in these two years. The company committed itself to making no compulsory redundancies in 2010, but did not make any commitments on job security beyond that date. For its part, the union agreed to engage until completion in a review of the company's defined benefit pension scheme. In November 2009, the staff accepted the agreement, bringing to an end a protracted process.

Since the endorsement of the agreement, relations between management and unions have been constructive and positive, which is fortuitous since business conditions went from bad to worse in the early part of 2010. Management had to put forward a voluntary redundancy programme, which ended up being quickly and painlessly agreed with the relevant unions. Some 200 employees left the organisation. The new constructive relationship between management and unions is also reflected in the progress that has been made in the discussions about restructuring the organization's pension provision.

In terms of changes to the HR function and plans to recast it along the lines of the business partnership model, the financial crisis has caused IL&P to review its business priorities and it is this agenda that is currently dominating the work of the HR function.

### **Case Study 2: Sherry FitzGerald**

Sherry FitzGerald is a leading Irish residential and commercial estate agent, with a strong brand identity and commitment to customer service. The company does not recognize trade unions or engage in collective bargaining. Like other firms in the sector, Sherry FitzGerald was significantly affected by the recession, the associated credit crunch and the slump in the real estate market. In the residential market the volume of transactions fell by some 40 per cent and their capital value fell by some 50 per cent from the market peak to 2010. The volume of new home sales fell by about 70 per cent.

Rather than instituting redundancies immediately when faced with the imperative to significantly cut costs, the firm decided that its chief HR priority in adapting to the worsening downturn would involve employment protection and job security. The company initially resolved to engage in salary cuts in its Irish businesses as the 'primary platform for change'. Salary cuts were to remain in place until market conditions improved significantly.

Any redundancies that might be deemed necessary in the future would be kept to a minimum, and the company declared that there was no plan to close any branches or departments. Career breaks and flexible work options such as reduced working



weeks were offered to staff. Some use was also made of staff redeployment within the business, as a recruitment embargo was also in operation.

The strategic decision to prioritize job security was understood and communicated as appropriate to a business and culture that emphasized teamwork and was consistent with Sherry FitzGerald's brand and reputation.

The plan involved introducing cuts in base salary on a sliding scale, with the heaviest burden falling on the highest paid staff and with protection for staff on the lowest pay, whose pay was not reduced. Many fringe benefits were also suspended.

The approach adopted was seen as both fair and well aligned with the company's culture.

Staff were informed of the measures to be introduced by the company in a series of town-hall meetings, undertaken between managing directors and people employed in the business's different divisions. The town-hall meetings were followed by one-on-one meetings between line managers and their reports, and HR provided support through a dedicated service informing staff of the effects of the salary cuts on individuals. Staff could also seek information or voice their views through the company's open-door policy.

With no easing of market conditions, the salary cuts implemented were not sufficient in terms of cost savings and, in late 2008, compulsory redundancies were seen as unavoidable. In total, 31 redundancies were implemented across the Irish businesses. While it was hoped that this would be the final necessary cost-saving measure, in April 2009 the company implemented a second round of cuts in salaries. The reductions in salaries were introduced across the board with no protection for those on the lowest salaries. This arose from staff feedback that it was felt that insulating any groups from the pay cuts was unfair.

Besides reductions in salary and offering a variety of reduced and flexible working time options, the company also changed some other HR practices and systems. Competences were again addressed in the context of how the business might evolve. Talent management and succession planning were again considered. The company also now adopted a more rigorous approach to managing under-performance. Sherry FitzGerald maintained its HRD effort but reduced the spend. Employee engagement was also identified as a significant area of future activity.

The HR function was seen as central to and influential within Sherry FitzGerald's response to the recession. It was seen as operating in a 'partnership' role with senior managers in devising the company's response to the effects of the recession.

Sherry FitzGerald has retained its position and brand identity in the industry during a period of severe and unprecedented contraction and has preserved and indeed reinforced its culture. The company's operational cost base has been reduced by



some 48 per cent. Minimal compulsory redundancies have been instituted and there has been a satisfactory level of take up of reduced and flexible working-time options. Staff experienced significant cuts in pay and the curtailment of some fringe benefits.

As senior managers see it, the company has experienced no significant decline in morale, and staff in general appeared to have formed the view that changes introduced in pay and conditions were unavoidable, appropriate and fair.

### **Case Study 3: Dublin Airport Authority**

The Dublin Airport Authority (DAA) is responsible for operating the main Irish airports at Dublin, Cork and Shannon. The company is highly unionised: union density standing at 95 per cent. In 2008 the DAA employed just over 3,000 (FTEs).

In 2008, passenger traffic fell (albeit marginally), as did group profits and the DAA's credit rating. Business conditions worsened significantly during 2009. Passenger numbers declined by just under 13 per cent and turnover also fell by 13 per cent. In 2009 group profit declined by 51 per cent. After provision for redundancy payments, this resulted in an after-tax loss of 13 million euro compared to a profit level of 47 million euro recorded in 2008.

At the same time as the recession was severely impacting on its business, the DAA was anticipating the opening of the new second terminal (T2) at Dublin Airport in 2010. The Government had declared its intention to open the operation of T2 to a competitive tender process. The DAA thus faced the prospect of having to compete to operate its own new terminal at Dublin Airport. The Authority anticipated that the cost of operating the new terminal, in particular the pay-bill costs, would be a highly significant factor in awarding the contract to operate T2.

At the end of 2008, the DAA reached a high-level accord with SIPTU, which established agreed parameters for the operation of T2. This deal, unannounced at the time, and presaging less favourable terms and conditions in T2, cleared the way for a bid by the DAA for the operation of Terminal 2 and set the pattern for pay and conditions in new extensions to facilities in Terminal 1.

As business conditions worsened, the DAA engaged with the unions on its Cost Recovery Programme (CRP). The company volunteered independent verification of its financial situation and prospects. The unions chose a financial expert who authenticated the financial data presented to the unions by the DAA. From the beginning, HR led the strategy of identifying payroll cost saving areas to be pursued and determining how these and the financial circumstances of the company would be presented to staff and unions.

As the talks between the parties on the CRP began in earnest in May 2009, the DAA presented the unions with a diverse range of options for achieving ongoing cost reductions in the pay bill which included - a reduction of 400 jobs through a



voluntary severance scheme; a pay and bonus freeze and changes to overtime and other premium payments, as well as to the sick pay scheme. There were to be new terms and conditions for new entrants and also for staff categories subject to the T2 tendering process. The proposals presented also included career breaks and reduced working hours options. In the talks, the unions canvassed what was described as a 'golden share'. This would involve profit sharing or bonus payments on the company's return to profitability.

The negotiations reached a turning point in September when the DAA indicated to the unions that higher cost savings would now be required in other payroll areas. An expanded set of cost saving proposals was now put on the table, which included the outsourcing of various service areas, management redundancies and possible pay cuts of 10 per cent. SIPTU declared its firm opposition to outsourcing and pay cuts and, in common with the other unions, was staunchly opposed to compulsory redundancies. The company halted the voluntary severance scheme pending agreement on the CRP and declared its intention to refer the programme to the LRC.

The negotiations were being conducted in a context in which the parties shared some common principles and interests. The financial disclosure provided to the unions' consultant meant that there was little disagreement with regard to the nature or scale of the company's financial difficulties. In addition, both parties were aware that an inability to reach agreement on the CRP could seriously impair their joint objective of the DAA becoming the operator of T2, while any disruption to the airports could prove fatal to this objective.

LRC conciliation brokered agreement in areas where the parties had appeared willing to find accommodation - principally voluntary severance and its operational implications, the deferral of the national pay agreement and the non-payment of discretionary bonuses - and also allowed progress to be made in other areas like reductions in overtime and other premium payments.

### **Employee Recovery Investment Contribution (ERIC)**

SIPTU had begun work on a proposal to be known as the Employee Recovery Investment Contribution (ERIC), in which pay cuts would be reversed when the DAA returned to profitability and staff would be accorded a financial dividend in return for their willingness to accept temporary pay cuts. At LRC conciliation, SIPTU undertook to indicate how a proposal of this kind might form part of an overall agreement on cost recovery.

The proposal that formed the basis of talks between the parties envisaged pay reductions on a graduated scale, wherein progressively higher earnings attracted larger percentage reductions. These reductions would be temporary and would cease when the company's business and financial circumstances revived.

The agreement reached at the LRC in December 2009 accepted that new entrants would be appointed on different terms and conditions. Some 100 temporary jobs



would be lost and 320 permanent staff would be facilitated in exiting the company. A series of changes to shift rosters and work practices were agreed in different areas to deliver services with fewer people and at higher levels of efficiency. The parties agreed €5-6 million in headcount reductions in the management grades. For the company this would equate to over 80 management positions. Overtime payments were reduced from double time to time and a half and the number of permitted uncertified sick days was reduced from 4 to 2.

During 2010 and 2011, as the company sought to restore its financial position, there would be no restoration of pay levels. In 2012 or beyond there could be a temporary partial (50 per cent) or full restoration of pay levels, by means of lump-sum payments, if a specified level of ROE (or profit target) was achieved. Only if the average ROE reached 4.57 per cent (or after-tax profits reach €60 million) or 6.75 per cent (or after-tax profits reach €80 million) in three consecutive years would pay levels be permanently restored. The agreement also made provision for a €1 million fund to be distributed to employees if budgeted payroll savings for 2010 are achieved. It was further agreed that a profit sharing scheme would be designed and introduced by negotiation.

Reflecting a long-established management objective, a new dispute procedure was agreed involving the setting up of an internal committee with an agreed independent chair. This committee would adjudicate on any disputes that arose during the implementation phase of the cost recovery agreement. Adjudication would be non-binding at the insistence of the unions.

The agreement was carried decisively by a majority of members of the DAA unions. Soon after the cost recovery agreement was concluded the parties turned their attention to T2 and secured an agreement involving a new grading structure and lower rates of pay than those pertaining to T1. No major problems have been reported by either side in the implementation of the CRP agreement. Over 400 people applied for voluntary severance and the company instituted an outplacement programme to provide advice for applicants on redundancy pay, tax, social welfare and career and training options. The remaining area of contention involved a Career Development Centre for out-placing middle managers at the company.

All three cases discussed in this chapter have involved widely-admired and effective initiatives for responding to the recession while having regard to employees' interests as stakeholders, either by engaging with their unions, or by otherwise taking their interests into account. All sought to contain job losses, while staying on course with respect to changes in HR and industrial relations practices and systems contemplated before the onset of the recession. None sought to harness the recession to change course in any fundamental sense. All adopted programmes were led by influential senior managers and HR functions. And all operated through intensive communications and information disclosure. In the unionised firms, managers and union representatives engaged in realistic and pragmatic negotiations and sought to use internal and/or external mechanisms for conflict resolution.



## Chapter 8

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# Maintaining Trust and Developing Competencies in Challenging Business Times: Superquinn, Medtronic and Ericsson



In this chapter three case studies are presented of how organisations, in quite contrasting organisational and business contexts, have rooted their responses to the recession in maintaining and even deepening trust relations between management and employees and in maintaining a focus on competency development in an Irish subsidiary affected by global restructuring activity. The first case study deals with securing an agreement in a unionised firm whose very survival was at stake. The second case study deals with reaching an agreement aimed at securing the mandate of a subsidiary plant within the parent multinational. The third case deals with proceeding with competency development in the recession in the context of global strategy and global restructuring.

#### **Case Study 4: Superquinn**

Superquinn is a privately owned grocery retail chain with 23 stores and approximately 3,000 employees. Until 2005 it was a family run business founded by Fergal Quinn. Under Quinn's leadership, Superquinn developed a reputation for quality fresh food, customer care and service excellence and was recognized as a pioneer in service provision. This was allied to a 'hands on' paternalistic management style.

Superquinn recognizes three trade unions: SIPTU, BFAWU and Mandate. Traditionally, Superquinn maintained what could be described as a benign-arms length relationship with the trade unions. While there was clearly a sense of trust and mutual respect between management and trade unions in Superquinn, a partnership style arrangement did not exist. Management did not routinely share business-related information with unions and the role of trade unions was limited to handling disciplinary issues and grievances.

In 2005 the current owners, Select Retail Holdings, a venture capital company, bought the company. Since the takeover, there has been ongoing speculation that Select Retail Holdings will sell the retail business. Most of the senior management team were replaced after the takeover. Select Retail Holdings introduced a series of cost-reducing initiatives including, for example, the elimination of staff canteen facilities. These factors, combined with a concern for employment prospects in the event of the business being sold, meant that the takeover altered the industrial relations climate within the organisation.

The recession and the concomitant collapse in consumer spending has had a dramatic impact on the grocery retail market. The value of the grocery market fell significantly and consumers appeared to be switching from premium brands, shopping around, spending less per trip, and travelling to Northern Ireland (due to a favourable exchange rate with sterling and lower VAT and excise duties). Superquinn's market share declined from 7.5 per cent in 2008 to 6.6 per cent in 2010.

Superquinn's response strategy has two key components. First, it negotiated a survival plan agreement (The PCC) providing for the introduction of cost-cutting



initiatives such as redundancies and a pay freeze. Secondly, unions and management agreed the introduction of a new partnership style procedural agreement.

The PCC was negotiated with Mandate, SIPTU and BAFTW, and agreement was reached in March 2009. The deal was viewed as highly innovative and progressive by both the employer and trade unions and is credited with securing the survival of the company. The deal provided for almost 400 voluntary redundancies, a 12 month pay pause and the introduction of new profit sharing and gain sharing schemes.

The deal had a number of innovative features. One was a provision relating to 'banded hours' contracts. Prior to the introduction of the survival plan, workers could be scheduled to work anything between 18 to 39 hours per week and therefore their earnings could fluctuate quite dramatically from one week to another. The provision related to 'banded hours' which introduced two types of work schedule or 'band of hours'. Employees can now be contracted to work between 18 to 25 hours or 25 to 39 hours per week. As part of the review on working hours, unions agreed to a two hour 'window' of flexibility around start and finish times. The 'banded hours' contract offers some stability of earnings for employees and is viewed by trade unions as a major achievement for staff in the Irish retail sector at a time when workers' hours are being cut across the board.

A further indication of the willingness of both parties to be flexible and find mutually beneficial working arrangements can be found in the introduction of annualized hours which allows employees to spread their earnings across periods of time such as school holidays, where in the past they would have taken unpaid leave.

In order to comply with the requirements of the *Employees (Provision of Information and Consultation) Act, 2006*, Superquinn, along with the unions and management reached agreement on a new partnership-style arrangement in which unions and management have agreed to 'nurture and protect a consultative approach' to managing their relationship. The agreement includes a series of initiatives including: hosting monthly Store Partnership Forums (SPF) and biannual Company Partnership Forums (CPF); enhanced disciplinary and grievance procedures; improved communications facilities and training and development opportunities for staff members.

The agreement also provides that all unresolved issues which have broader implications can be referred to an agreed working party or appropriate external third party for consideration.

The first monthly Store Partnership Forums were held in October 2009 and the first Company Partnership Forum took place in the spring of 2010. Since then trading conditions have become even more difficult. There appears, however, to be a consensus among management and trade unions that the forum structures are working well despite the competitive pressures.



In the summer of 2010, unions and management entered into negotiations to review the pay pause agreed in March 2009. Given the ongoing difficult market conditions, management were seeking a pay cut (the need for this had been signalled at the Company Partnership Forum). Agreement has now been reached that pay will not be cut, but that contributions to the pension scheme will be frozen for one year. Provision has been made for the full restoration of the pension contributions. After one year, employees can make a contribution to the pension scheme which is equivalent to the amount that was withheld and management will match this contribution.

In the course of these negotiations, management provided the unions with access to company accounts. The unions' legal experts examined the books and produced a report for the union officials. That the unions were given access to such commercially sensitive information bears testament to the level of trust between management and trade unions.

### **Case Study 5: Medtronic**

Medtronic is a leading global company in the medical technology industry. It started trading in 1949 in the USA, initially as a product servicing company and progressed to developing the world's first, battery-powered cardiac pacemaker, a pioneering product at the time. Over the years, the company has also adapted additional technologies for the human body and today, the technologies developed by Medtronic are used to treat more than 30 chronic diseases.

Medtronic first came to Ireland in 1999. The senior management team at Medtronic headquarters was quite prepared to introduce new HRM policies. At the same time, it elected to stay with a trade union recognition agreement that the company's newly acquired Irish plant had entered into, even though Medtronic on the whole was a non-union organisation.

There are about 2,000 employed at the Galway site, consisting of about 1,300 semi-skilled process employees (direct labour), and about 700 highly skilled support employees (support labour). All of the permanent direct labour resources are unionised due to the recognition agreement at the site while most of the support labour is non-unionised.

The Galway site cannot be considered a low cost operation. Pay is significantly higher than the average going-rate in the local labour market and about four times above the hourly rate received by employees at Medtronic's subsidiaries in Mexico.

An extensive learning and development programme operates on site. Medtronic actively develops internal career paths: every year about 50 per cent of vacancies are filled from internal staff pools. Overall, a strong commitment exists at the site to involving employees in decision-making and to keeping them abreast of how Medtronic is performing.



Employment relations at Medtronic Galway have consistently been good and interaction between managers and union representatives has been consistently positive. No time has ever been lost to any form of industrial action and the organisation has not had to resort to any third party such as the LRC or Labour Court to resolve a dispute.

Within Medtronic, the Galway site is constituted as a cost centre rather than a profit centre. Every year the site has to report to headquarters on the extent to which it has met efficiency targets. These annual metrics place all parts of the Galway operation under pressure to reduce costs.

Very few businesses were left untouched by the recession, but the medical devices industry did not fare as badly as most sectors. Medtronic did experience a fall in sales of some products, and revenue growth and profits also dipped. The value of Medtronic stocks fell in 2008, which was probably caused by a market assessment that income was falling while costs were staying the same. The senior management team in the company was concerned that the company was not coping with the recession as well as some competitors. In particular, the company got anxious about the recession forcing governments and patients to reduce expenditure on health related products, which could adversely affect Medtronic sales.

Senior management at headquarters concluded that it had to take action to improve profitability and cost competitiveness. In late 2008, the company announced that it was making 1,500 people voluntarily redundant across its world-wide operations to obtain a better alignment between costs and expenditure. This announcement only marginally affected the Galway plant as no more than 60 people were made voluntarily redundant. In spring 2009, the company further announced a company-wide freeze on salaries and promotions. This decision caused specific problems for the Galway site as it meant revisiting the hard-to-conclude 2007 pay agreement, which had set down that employees would receive a 4.5 per cent pay increase in 2009.

In reality, the only option open to local managers was to try and comply with HQ's decision on the pay freeze in a manner that would not jeopardize, at least not to any great extent, the good employment relations climate in the Galway plant. Intensive communications efforts were made to explain to employees the reasoning behind the company's pay freeze decision. For the union, the case for a pay and promotions freeze was not evident as the company was still making profits and thus on paper had the ability to pay.

Extensive discussions were also held with the wider management team at Galway as well as with the Vice President of HR based in Minneapolis. Management realised that the proposal placed union representatives on the defensive with their members and thus gave the union team as much space and time as possible to have internal discussions. It also realized that when negotiations started that to



make the pay freeze more palpable to the unions, management would have to make some type of concession. The management team offered to turn 50 contract jobs into permanent positions (which would give the union 50 more members) if the union agreed to the pay freeze. Finally after intensive discussions, an agreement was concluded, which involved the union accepting the pay and promotion freeze for 2009 and management agreeing to implement the 4.5 per cent pay increase in two tranches in 2010. In addition, management agreed to make 50 contract workers permanent and to a number of other minor concessions.

Concerted efforts by both management and the union to promoting the agreement paid off as the employees voted 70:30 to accept it. This outcome was important for the management of the Galway site. It signalled to Medtronic headquarters that despite its idiosyncratic status as being the only subsidiary recognizing a trade union, the Irish operation could implement difficult company-wide decisions. Internally, the episode has not damaged the collaboration that has been such a hallmark of the trade union-management relationship over the years.

### **Case Study 6: Ericsson**

Ericsson is a global company that provides telecommunications equipment and related services to mobile and fixed networks around the planet. The company was established in Sweden in 1876 and its headquarters is in Stockholm. Currently over 88,000 people worldwide, 40,000 of whom are service professionals, work for the company.

Ericsson is a highly sophisticated multinational that places great emphasis on innovation, seeking not only to keep pace with but also to pioneer technological breakthroughs. In recent years, it has led the technological development of the mobile telephony industry.

The company's present day corporate strategy has been shaped by events nearly two decades ago. At the end of the nineties, the company rode the crest of a stock market wave due to the dotcom bubble, which led to the company investing too heavily in research and development (R&D). When the dotcom bubble burst in 2000, the company had to make 60,000 employees redundant. This was a salutary lesson for the company: ever since it has been emphatic about the need to be lean as well as innovative.

Competency based management is at the centre of how people are managed at Ericsson and it involves supporting the development of employee competences and learning capacities so that they can operate effectively in a knowledge-based organisation: it aims to create the right mix of employee competences to meet on-going business challenges.

Although not insulated from the recession, the markets in which Ericsson operates have not been severely hit by the recession. At the same time, the senior management team is very aware that the telecommunications sector is highly



competitive to the extent that any hint of the company not being able to control costs could potentially send the company's reputation into a tailspin.

Ericsson has been operating in Ireland since 1957 and has now over 1,400 employees in Clonskeagh, Dublin and Athlone, Co Westmeath. Together the Irish operations are engaged in three main activities, Sales and Support to local Customers, R&D and the provision of Professional and Consultancy Services to the Global market.

Ericsson Ireland has a relatively small HRM team employing about 10 people. The HR department has gone under considerable change over the past thirteen years due to several rounds of corporate restructuring.

Only about 20 per cent of the workforce in Ericsson Ireland is unionised, with the remainder being non-union. Different terms and conditions for employees make it slightly more challenging for the subsidiary to operate an integrated human resource management system. Relations between the union and the company can be considered workmanlike, neither excessively adversarial nor overly consensual.

The HR team is very much committed to developing a suite of business relevant people management policies, with a particular focus on helping to implement wider business strategy. Controlling costs and developing employee competencies have been core aspects of Ericsson Ireland's business strategies for the past decade.

Considerable effort goes into developing competencies at Ericsson Ireland. Ericsson has developed an extensive set of resources to support its competency management system in line with the template established by headquarters. The HR team has been doing a lot to support competency development. This commitment to developing people's skills and competencies has remained undiminished during the recession. It is seen as equally important to the success of the business as controlling costs.

Ericsson Ireland adopted a far-reaching competitiveness programme in 2005 designed to drive down costs and increase productivity without making employees redundant. Ever since, the subsidiary has been aggressively pursuing policies aimed at improving competitiveness. In a sense, the recession of 2007 arrived two years early at Ericsson Ireland. When the recession finally arrived, the subsidiary did not have to uproot established organisational routines, but simply continue with the existing competitiveness plan.

As part of a world-wide restructuring programme, Ericsson Ireland was obliged in 2009 to cut 300 jobs from the research and development section of the Dublin site. Most of the jobs were not lost due to the recession, but were transferred to China, Poland and Sweden as part of an overall strategy to reduce the number of R&D sites globally and to reduce cost. In 2010, the subsidiary had to introduce another



round of voluntary and mandatory redundancies due to another organisational restructuring programme.

Despite the redundancies that have occurred in recent years, Ericsson Ireland remains a lynchpin of global Ericsson. Within the multinational, Ireland is still seen as possessing highly skilled and motivated people both in Dublin and Athlone who contribute considerable value to the company.

The competency regime inside the subsidiary is key to developing trust and commitment inside the organisation. Competency development is designed as a form of organisational public good; it is non-rival: the provision of training for one employee does not exclude another employee from training; all employees have the ability to 'consume' some form of training. This creates shared understandings between employees and managers about the professional conduct and standards of behavior that are expected of both.

Although different problems were encountered and contrasting bundles of policies implemented in these three case studies, each company made sustained efforts to maintain, if not to deepen, cooperation and trust or competencies. There was no attempt by management and unions in Superquinn or Medtronic to exploit any vulnerability the other side was experiencing due to the recession. It is likely that a calculation was made in each instance by management and unions that committing to trust relations would enable more effective buy-in for retrenchment policies. These case-studies also highlight that trust relations are not self-organizing or self-sustaining, but instead require deliberate and on-going actions and interventions by both management, particularly HR managers, and trade unions. In Ericsson a focus on cost and competitiveness pre-recession meant that now radical displacement was necessary with the onset of the recession. The focus of HR was to maintain competency development in the Irish subsidiary, even while unavoidably affected by global restructuring and associated job losses. Competency development, linked with global strategy, remained the pivotal HR practice, and the central means of preserving opportunities for staff unaffected by the corporate restructuring programme.



## Chapter 9

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# Human Resources in the Recession: Summary and Conclusions



## HR practices in the recession

In developing a human resource strategy to address the difficulties thrown up by the recession, firms have not sought to either simply hold onto, or shed labour. Instead they have enacted a battery of policies, including pay freezes or cuts, curbs on overtime, short-time working, redundancies, voluntary and compulsory, and more rigorous work regimes.

A feature of the 'retrenchment' programmes implemented by many firms is that the content varies a good deal from firm to firm. In responding to the recession firms are not enacting a similar suite of policies rather they are adopting an a la carte approach, using particular policies that allow them to navigate their own pathway out of the recession.

A second feature of these programmes is that firms do not simply include 'hard' HRM policies aimed at cutting pay-roll and boosting productivity. Frequently, programmes also include 'soft' HRM policies aimed at maintaining employee commitment and loyalty. These include intensified communication and employee engagement efforts, retaining HRD initiatives and the injection of as much fairness as possible into these programmes to ensure that the impact is spread evenly across all groups of employee, including management. HR managers appear to be trying to balance 'hard' and 'soft' people management policies in an effort to ensure that efforts to address short-term cost pressures do not erode employee motivation or their commitment - an organisational attribute essential for firms to remain successful in the medium-to-long run.

## Unions and representation in the recession

Key aspects of the unions' preferred good practice framework include - their recognition by management as key stakeholders in the company and thereby their close involvement in any discussions about how to secure the future viability of the business in the face of the economic downturn; that in the event of employees having to accept a pay freeze or even a pay cut that some 'claw back' provision should exist to allow them recoup forgone earnings when prosperous business times return; that higher earning employees should bear a disproportionate amount of any restructuring burden and greater protection should be provided to the more vulnerable or less paid employees; and that a commitment should be made to provide unions and employees with full information about the financial state of the company on an on-going basis to allow trust to be maintained between management and unions. A restructuring plan that contains these various elements would be considered by trade unions to be a 'high-road' (progressive or 'good practice') strategy.

The evidence presented in this study suggests that the incidence of such high-road restructuring plans is low. On the other hand, there appears to be little evidence of employers in general either launching a concerted offensive to by-pass unions



when developing a response to the crisis or even to marginalise union representation. What does emerge is a picture of collective bargaining and other engagement processes being used mainly in an attempt to gain consensus on management plans and not to negotiate joint solutions about how to restructure the enterprise and/or workforce in response to the business downturn.

A number of factors account for the inability of unions to act more assertively in the creation of restructuring plans, which include - the sheer scale of the recession resulting in trade unions being caught in situations where they could do no more than acquiesce to managerial priorities; the collapse of the national social partnership framework that could have strengthened the bargaining hand of unions inside organisations; the weak position of trade unions to some extent reflecting the outlook of their members who are subdued and compliant, fearful for their jobs, pensions and livelihoods.

The recession has debilitated trade unions and it may be that the current situation could have permanent negative consequences for trade unions in that they might be unable to recoup lost members and bargaining power when economic conditions improve.

### **The recession and the HR function**

The research conducted in this study reveals the advent of HR functions that have commonly avoided radical reconfiguration or depletion of resources and that have gained new influence as ‘business partners’, mainly on foot of a ‘hard’ HR agenda dictated by primarily short-term responses to acute commercial challenges.

The basis of HR’s new-found centrality to business is manifestly the increased dependency of firms on HR expertise and knowledge in successfully introducing controls or reductions in areas like pay and headcount and related changes in working-time regimes and work practices.

This new centrality however, does not appear to have commonly translated into leadership with respect to HR strategy over the medium to long-term, nor into strong advocacy regarding the pivotal role of many ‘soft’ HR practices in harnessing commitment and engagement for sustainable business success. Few instances were reported in the focus groups or case studies (Ericsson was an exception) where HR managers were active in positioning HR practices, systems or processes to support business revival over the medium or long-term. Where such an instance was identifiable, for example in the Ericsson case study, the strategic focus of the HR function preceded the recession. Where HR managers have become influential as a result of the recession, it cannot be inferred with any confidence that they will remain influential when more normal business conditions return.



## Good HRM in the recession and the future of work and employment

A striking feature of the research is the degree to which principles of good HR and industrial relations in the recession identified by focus group participants, both HR managers and union officials, reveal continuities with long-abiding ideas about the features of exemplary people management and relations with trade unions.

There is little evidence of any really significant change in the ideas guiding good HR practice, and no real sense that the ground has been shifting and that new principles and practices are coming to the fore, or fundamentally altering long-established precepts and ways of working. It is also significant in this regard that the case study firms, chosen for study because they are widely viewed as having managed HR effectively in recessionary conditions, have largely acted in accordance with these principles. There has been a re-prioritisation of HR priorities and practices. Recruitment, selection and retention, core concerns of HR during the boom, no longer assume such importance, and have been displaced, or eclipsed, by controlling pay-roll costs and downsizing. Less obviously, intensive communication is now regarded as a primary HR practice for effective management in recessionary conditions.

For the most part, changes and response programmes in the case study firms have been 'path dependent': in the sense that they reflect long-established relationships between the parties and the parties' concern to sustain these through the recession. Thus the ERIC proposal in DAA reflects a heritage of stable industrial relations and significant past innovation. The agreement in Medtronic reflects good industrial relations and a shared awareness of the need to co-operate to protect and extend the subsidiary's mandate from the parent company. Tiered salary reductions in Sherry FitzGerald reflect an organisation that has traditionally valued staff cohesion and commitment as key brand attributes. The survival and partnership agreements in Superquinn reflect a tradition of good if paternalistic industrial relations extending back to the company's previous owner. The pivotal HR competencies programme in Ericsson preceded the recession and has been retained in the Irish subsidiary even while job losses triggered by global restructuring have occurred.

It is perhaps the union officials in the focus groups whose comments and experiences point towards some of the most significant changes in prevailing work and employment arrangements and models.

The picture of HR in the recession that emerges from the survey, focus groups and case studies, therefore, seems to be marked by the following major features. Firms, their employees and unions have experienced considerable tumult and have responded by controlling or reducing pay and headcount, while seeking for the most part to sustain prevailing approaches to human resource management and industrial relations. 'Hard' HR practices focused on controlling pay and headcount, have commonly been balanced by 'soft' HR practices focused on communication,



involvement and engagement. In this process there has been much cautious and incremental improvisation and some innovation. There have been few attempts to break the mould and either to reverse or deepen existing models of HR and employment arrangements. The recession *per se* seems unlikely to cause any disjuncture or transformation in work and employment arrangements.





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