



2.6 Keeping Workers on the Pay Roll

SAVIOUR RIZZO

This article examines the recent restructuring trend across Malta's public and private sectors. The government's intervention during the international economic crisis is discussed and questions are raised about whether such intervention should have been adopted earlier. The article ends by highlighting some lessons that can be learnt from the examined restructuring processes.

Introduction

Restructuring has become an ever-present part of business life. At company level, the term restructuring means a modification of a company's workforce qualitative (skills and qualifications) and quantitative features (number of jobs) following adaptation to the company's structure, organisation or production processes. At government or national level it involves the redirection of economic goals by steering the course of economic policy along channels dictated by globalization, a fiercer international competition, technological development and environmental concerns. In the last decade the Maltese economy has had its fair share of restructuring exercises at both company and national level. This article provides an evaluation of the restructuring process in Malta by highlighting the main events related to this phenomenon.

Exposed to a far reaching process of economic liberalization and deregulation due to its European integration, restructuring in Malta at national level was characterized by a substantial reduction in employment in the public sector, and in old labour intensive sectors such as manufacturing and ship repair. In the public sector the restructuring was mainly a downsizing exercise through attrition, and early voluntary retirement and severance pay offers to reduce excess labour and to make the entity being privatised more attractive to bidders.

In 1998, government sold 40 % of the share of Telemalta - a state-owned company, which at that time was the main provider for telephone and communication services. As a result of this privatization exercise the

corporation was converted into a public limited company assuming the name of Maltacom. In 2006 the company was fully privatized when the Dubai-based firm Tecom Investments bought the state's 60% shares. In the agreement signed with government the Dubai company, operating under the brand name GO, was precluded from shedding any jobs during its first three years of operation.

As this agreement was about to expire in March 2009, the policy of the company became aggressive. The CEO was quoted as saying that the current employment levels of the company were making it unsustainable. Following its loss of monopoly on fixed-line telephony it had to compete with other telecoms companies in different services. In its aim to reduce its workforce by 350 to reach its target of 1,000 employees, a voluntary retirement scheme, which was going to cost the company €60,000 per employee, was offered to the employees. Through this scheme the company was planning to reduce its workforce. In order to put pressure on the employees to volunteer for the scheme, the CEO stated that this would be the last retirement scheme being offered by the enterprise (Micallef, 2009).

This case is the prototype of the mode of the restructuring exercises which workers in state-owned enterprises such as Public Broadcasting Service (PBS), Malta Shipyards Ltd. and the Department of Post had to contend with. In the privatization process of public utilities the restructuring mechanism consisted of a trimming exercise of the workforce with government dishing out hand outs in form of severance pay or offering early retirement schemes. Thus Government's response can be defined as a reflex reaction in the sense that it consisted of measures to deal with the inevitable and mitigate the attenuating circumstances of redundancies. The new companies that took over these public utilities, as the case of GO illustrate, adopted the same policies in their restructuring exercises.

Restructuring in the Private Sector

In the private sector, restructuring was characterized by the closure of a number of firms operating in the manufacturing sector. What sticks out in this decline of the manufacturing industry was the closure of two relatively large companies, Denim Services and VF - two firms which were instrumental in registering the almost total demise of the Garments and Textiles Sector. Previous to its closure in 2007, VF, the main enterprise in the textile sector

manufacturing jeans for exports, had already laid off 200 employees in a downsizing exercise. Eventually the company announced total closure. In the case of the closure of Denim Services, another large firm in the Garments and Textiles Sector, attempts were made to attract an Austrian company, Gama Group, to take over the company. Gama had shown interest in investing in Malta because it aimed to develop new ways in the manufacturing and distribution of high fashion jeans, tailor-made to the requirements of customers. In December 2008, the Maltese government was providing all the assistance required by this company through Malta Enterprise to set up its operations in Malta. However, Malta Enterprise and Bank of Valletta, in their diligence and financial evaluation of the proposition put forward by Gama Group, expressed their inability to meet the financial request of the company. It was reported that Gama Group did not want to put money up front in Malta. Malta Enterprise offered a guarantee of 75% of the required bank loan but Gama could not guarantee the remaining 25% (The Malta Independent, 2006).

The involvement of government in this case was induced more by an initiative of a foreign firm rather than by a planned innovative strategy. There were still no visible signs of a real attempt of government intervention to change the course of these events. It was the financial crisis that hit the Maltese economy towards the end of 2008 and beginning of 2009 that forced the Maltese Government to adopt a completely different approach to the threats of collective redundancies. In the recession of 2008 and 2009 which threatened jobs of many firms in the private sector, the Maltese government decided to take a much more active stance by taking measures to stall the downward slope in employment which the recession was about to cause if left to run its natural course. The boldest and most concrete measure to manage restructuring was the setting up of a task force by the Ministry of Finance whose aim was to provide a tailor-made package of financial aid to those companies which towards the end of 2008 were finding difficulties to cope with the prevalent financial crisis. The focus of this task force was on keeping people in work thus avoiding the long standing economic toll of high joblessness, as workers lose skills and become harder to re-employ. In line with the policy adapted in other European countries, and in conformity with EU laws and regulations, part of the operation of this task force was to subsidise shorter work weeks.

Among the companies that accepted to take this financial package were Methode Electronics Malta (a leading firm in the manufacturing industry) and Trelleborg Sealing Solutions Malta (a leading firm in the chemical sector).¹ The Task Force went beyond the task of striving to avoid collective redundancies by subsidizing additional hires by employers through the European Social Fund. These two firms, which featured very prominently in the news, provide the ideal example of good practices aimed at managing change during the financial crisis.

When they were hit by the crisis, these two firms went on a quest of finding windows of opportunity in which they set long-term policy goals without being distracted by panic measures. Through a well-planned strategy and rational policies, Methode managed to survive the crisis without resorting to layoffs. With the help of government it managed to retain the workforce at a time when there was a slump in market demand for its products. In its efforts of fending off the decrease in its market demands, the company sought ways of redesigning the organization so as to avoid downsizing and maintain its competitive edge.

The case of Trelleborg has many corresponding features with that of Methode. The main factor contributing to the sustainability of Trelleborg during the time of the crisis has been the adoption of a cautious approach to costings tempered by an element of risk in terms of new investments and development in the production processes.² Its investment in the workforce through its educational programmes complemented by efforts to retain the employment of its employees rather than resorting to severance pay and redundancies also paid off. The return to a full working week within a few months of announcing a four-day-week work schedule, without shedding any workers, confirms the effectiveness of the measures taken by management of these firms.

Government's subsidy scheme was timely and appropriate. This time round, government focused on keeping people at work thus avoiding the long standing economic toll of high joblessness, as workers become harder to re-employ. Government support was described by the managing director of Trelleborg 'as critical and exceptional' (Sansone, 2009). Sensing that this

1 Other firms featuring in the news were Toly Products and Stainless Steel Products Ltd.

2 Interview: Mr Mario Ellul, Human Resource Manager. Trelleborg Sealing Solutions Malta. 23rd November 2009.

recession was a cycle which would eventually be reversed, government decided to intervene so as to make sure that once this reversal occurs the industrial base would remain more or less intact. By paying firms to keep workers on their pay roll, government slowed down the rise in unemployment and helped in maintaining consumer confidence and demand. The trade unions representing these workers gave their consent to this approach.

What enhanced the rationale and legitimacy of this government intervention was the policy of bail outs of banks which in several European countries and in USA were declared bankrupt. The stimulus package offered by government to aid the firms in distress recover from the crisis did not give rise to the controversies related to these bail outs. In other words, there was no resonance of the protests voiced about the policies adopted by the governments of USA and some European countries of bailing out banks defined by their detractors as corporate welfare encouraging irresponsibility and/or ways of passing the buck to taxpayers.

The financial aid given to the industries in distress amounting to €4.5 million was different from the policy of bail outs of banks adopted by governments in several countries in Europe and in USA. The firms that received aid to help them recover from the recession could not be accused of greed or irresponsibility. What made things bleak for the firms to whom financial aid was given were exogenous forces which could not be resisted. The approval of the EU Commission to these aid programmes made their implementation more legitimate. Indeed rather than a voice of protest there was a chorus of approval from all quarters.

Should the government have intervened before the international crisis?

The question that arises from these examples is whether the firms in the Garments and Textiles Sector would have been able to reverse their fortunes and survive had the strategies illustrated in these examples been applied and had government decided to give the same stimulus package offered to Methode and Trelleborg. It should be noted that, prior to the financial crisis of 2008, there was no official government policy to give financial aid to companies in distress. Although in the case of Denim Services an effort was made to attract a foreign firm to take over, the ailing firms were let to succumb to their fate.

Perhaps this lack of action or reaction from government stemmed from the premise that the demise of the Garments and Textiles Sector was an ominous sign of the end of one phase of Malta's industrial history. The growth of the textile industry in the history of industrialization is often equated with the initial phase of the process of industrialization of the developed industrial world. The textile industry has always been operating in a highly world competitive market. The higher cost of labour, often induced by development of the industrial base of a country, diminishes the comparative advantages of its location in that particular country. This has made this sector susceptible to off shoring and there seems to be no way of stalling this process. The shift towards the service sector and more value added activities in industry marks a different phase in the process of industrialization. As the ravages of the financial crisis threatened to derail this transition, the Maltese Government adopted a more active stance by offering a stimulus package to the industries that were in distress. In 2010 this policy was continued as government adopted the same policy to help avoid mass redundancies at ST Micro Electronics.

Lessons to be learnt

Of course, state financial aid and stimulus packages do not make the firms immune or insulated from the vagaries of financial crises. Nevertheless, the policy adopted and the reactions of the firms to the recent financial crisis provide us with the following lessons:

Timely intervention by government, not simply to rectify the excesses of the market but to provide a temporary prop to enable ailing industries to recover, can be very effective in regenerating growth. An institution set up by government, such as Malta Enterprise, acting as a catalyst for development and sustainability, can play a vital role in times of crisis.

High trust relationships among the social partners emanating from continuous social dialogue and consultation processes can be vital as they enhance the legitimacy of the remedial actions and austerity measures needed to be taken in order to help companies recover during crisis. In these cases the social partners agreed to implement the principles of flexicurity. This flexibility, besides heightening the trust in the inter-relationships among the social partners, so vital in times of crisis, played an important part in boosting a return to recovery.

Insider knowledge of the firm used wisely to build proven strengths of the firm and at the same time identifying and eradicating weaknesses can go a long way in reversing a downward spiral.

Investment in research and development (R&D) that contributes to innovative practices and problem solving techniques may give the firm a higher degree of insulation from the shockwaves which occasionally occur in the market. In the case of Trelleborg, R&D was instrumental in helping the company devise new material process. The utilization of R&D at Methode helped it to maintain its high profile in the market thus enabling it to keep ahead of developments.

This article is an extract from the National Background Paper (NBP) – Malta which was presented for the project on 'Restructuring in Europe'. This project was funded by the European Parliament and coordinated by the ILO Training Centre in Turin, Italy. The NBP can be retrieved from <http://arenas.iticilo.org>

References

Micallef, M. (2009, March 26). GO to cut workforce by 350. Times of Malta. Retrieved from <http://www.timesofmalta.com/articles/view/20090326/local/go-to-cut-workforce-by-350.250324>

Sansone, K. (2009, March 8). Government steps in to save jobs at

Trelleborg. The Sunday Times. Retrieved from <http://www.timesofmalta.com/articles/view/20090308/local/government-steps-in-to-save-jobs-at-trelleborg.247914>

The Malta Independent (2006, January 17). BOV could not meet GAMA's requests. Retrieved from <http://www.independent.com.mt/news.asp?newsitemid=26807>