



# Anticipating and Handling Restructuring Processes – Evidence from German Case Studies<sup>1</sup>

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## Abstract

We investigate three cases with different handling of restructuring processes by means of interview-guided interviews in order to obtain insights into the factors affecting the internal functioning and the success of collective preparation mechanisms. The underlying key question is whether the best-practice examples investigated in this paper can be readily transferred to other German or European region and establishments, thus opening the path to a European Operational Framework for Restructuring.

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## 1. Introduction

The EU Commission's Green Paper on "Restructuring and anticipation of change: what lessons from recent experience?" (EU Commission 2012) aims to identify successful practices and policies in the field of restructuring and adaptation to change in order to promote employment, growth and competitiveness as part of the Europe 2020 strategy.

The Green Paper was in part written against the background of the economic crisis, which brought about new challenges with respect to immediate problems on the labour market. In the longer run, and independently of the crisis, there is a need to reallocate workers from low- to high-productivity sectors, while at the same time avoiding labour market mismatch, longer individual unemployment spells and a high structural unemployment rate. In fact, restructuring has long been a major concern at the European level; instruments such as the European Restructuring Monitor (ERM) have been put into place and Cohesion policy has been geared towards accompanying and managing structural change.

The approach of the Green Paper is to foster the ability of stakeholders to anticipate restructuring and to improve the management of change. It highlights mechanisms such as social dialogue, legal instruments and Member States' support measures in this field. It addresses the contribution from the EU level, such as providing EU funds in support of restructuring processes and the impact of restructuring in EU regions.

An essential element to this is to find ways to identify, disseminate and effectively implement good practices. In this context, the central objective of the F.OR.M Pact is to enhance mutual learning on successful restructuring. The focus is on the coordination of different levels and actors, such as local and national actors, social partners, education and training institutions, and the social security system. The idea is to leave behind stand-alone, individual (re-)actions vis-à-vis social and economic changes, and to bundle them into a multi-actor approach that comprises all relevant levels, realizing efficiency gains not least through an explicitly systematic preparation for upcoming changes. Furthermore, the F.OR.M. Pact project aims at strengthening social dialogue, cooperation and solidarity between the different stakeholders at the national and trans-national level inside the European Union.

Regarding good practices in restructuring, two major fields of activity have been identified:

- Anticipation of change, consisting of economic forecasting and foresight activities, in particular regarding the skills needed in different types of activities;
- Preparation for change, which includes training and labour market policies, social dialogue and local development.

This discussion paper aims to contribute relevant experiences to both types of activities from Germany, both at the company and the regional level. It places successful experiences into a multiple-stakeholder and multi-level context. While it acknowledges the diversity of conditions at the company and regional level, it strives to put individual experiences into a wider context and to identify transferable elements. It, thus, aims to contribute to the development of a collective preparation mechanism (CPM) for change that could be applied throughout Europe.

The German experience reflects both long-term developments and the impact of the recent economic crisis. The German economy has been strongly affected by structural change during the

past decades (e.g. in coal mining and in the steel industry, in textiles, leather and other labour-intensive manufacturing goods; see, for instance, Hospers 2004), let alone the large-scale readjustments that had to be made in East Germany after reunification. All these changes have led to losses in labour demand with respect to certain qualification and in particular regions.

Germany has also been affected strongly by the economic crisis in 2008 and 2009, yet its labour market performance has shown to be robust in comparison with other European economies. There are various explanations to this (see Bohachova et al, 2011, Burda and Hunt 2011, Caliendo and Hogenacker 2012, Herzog-Stein et al. 2013), among them the provision of short-time work benefits and the collective bargaining system which raised working time flexibility. At the same time, employment protection regulation and works councils are likely to have contributed to the prevention of large-scale fluctuations in employment during the crisis.

In the following, we first describe the legal framework for restructuring in Germany, highlighting its use in the recent economic crisis and pointing to elements that may be transferable to other countries. We then present our case studies which show how measures for anticipation and preparation have been implemented in German regions and companies.

## 2. The framework for restructuring in Germany

The main legal regulations for employment restructuring are contained in the Protection Against Dismissal Act (Kündigungsschutzgesetz, PADA) and the Works Constitution Act (Betriebsverfassungsgesetz, WCA). In addition, there are relevant provisions in the German Social Court. Furthermore, collective agreements often contain further regulations.

- **Obligation of announcement**

According to the PADA, employers of 21 and more employees have to announce collective redundancies and report them to the Employment Agency (the local branch of the German public employment system) in written form. A collective redundancy is defined according to the PADA § 17, par.1; a collective redundancy is assumed if it affects, within a period of 30 calendar days,

1. More than 5 employees in firms of more than 20 and less than 60 employees,
2. 10% of the regular employees or more than 25 employees in firms of at least 60 and less than 500 employees,
3. At least 30 employees in firms of more than 500 employees.

Expiring fixed-term contracts or dismissals for individual reasons are not included in the respective relevant total number of dismissals.

Following the announcement, there is a one-month period, the so-called “Sperrfrist”, during which the dismissals are put on hold. They only take effect upon expiry of this period and any dismissals during this period are only possible upon approval of the Employment Agency. The Employment agency may extend the waiting period to two months for specific reasons. However, it cannot prevent the planned collective redundancy altogether.<sup>3</sup> If the notice period is contractually regulated, e.g. by a collective agreement or individual employment contract, and exceeds the

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<sup>3</sup> PADA, §17,

[http://www.eurofound.europa.eu/emcc/erm/rll/regulations/view/59/germany\\_employment\\_protection\\_act.](http://www.eurofound.europa.eu/emcc/erm/rll/regulations/view/59/germany_employment_protection_act.)

dismissal-stop period, this notice period is still crucial.<sup>4</sup> If, furthermore, the dismissals have not been performed within 90 days after the announcement, a new announcement is required.

When announcing the intended mass redundancy, the employer has to include a copy of his notification letter to the Works Council and a statement of the latter. If a statement of the Works Council is not available, the announcement is only valid if the employer can substantiate that he has informed the Works Council at the latest 2 weeks prior to the announcement and if he can provide information about the progress of the ongoing negotiations. (PADA, § 17 III, IIIa)

- **Information and consultation of the Works Council by the employer**

In establishments with more than 20 employees, the employer is obliged to inform the Works Council “about form and reasons for the envisaged mass dismissal”<sup>5</sup> in written form and in appropriate time, so that concerns and suggestions of the Works Council can be taken into consideration throughout the process of dismissal. This information has to take place (at the latest 2 weeks) before the planned announcement of the mass redundancy.

According to § 17, par.2 PADA, the employer proposing a collective dismissal (par.1) has to inform the Works Council about:

1. The reasons for the intended dismissals
2. The number and occupational group of the workers to be dismissed
3. The number and the occupational group of the regularly employed workers
4. The timeframe, in which the dismissals shall be performed
5. The criteria for the selection of the workers to be dismissed
6. The criteria for the calculation of possible compensation payments.

Employer and Works Council have the possibility to consult, to avoid or to limit redundancies, and to alleviate the consequences of a restructuring. The consultations should address the “avoidance of job cuts via short-time working or company-based job transfer agencies and alternative forms of work organization and production.”<sup>6</sup>

In addition, an obligation to consult the Works Council is based on the WCA (§§ 111-113), according to which the employer has to inform the Works Council “full and in good time” of any “proposed changes in the business likely to entail disadvantages for the staff or a large sector thereof”<sup>7</sup> (including mass redundancies) and to consult with the Works Council. Both can negotiate a voluntary reconciliation-of-interest agreement defining “whether, when and at which terms the restructuring shall be implemented”<sup>7</sup> in written form. If the employer “does not take up consultations or if he breaks a settled agreement,”<sup>7</sup> he is obliged to make a severance pay. Otherwise, and in contrast to

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<sup>4</sup> [http://www.bmas.de/SharedDocs/Downloads/DE/PDF-Publikationen/a163\\_kuendigungsschutz.pdf?\\_\\_blob=publicationFile](http://www.bmas.de/SharedDocs/Downloads/DE/PDF-Publikationen/a163_kuendigungsschutz.pdf?__blob=publicationFile).

<sup>5</sup> [http://www.bmas.de/SharedDocs/Downloads/DE/PDF-Publikationen/a163\\_kuendigungsschutz.pdf?\\_\\_blob=publicationFile](http://www.bmas.de/SharedDocs/Downloads/DE/PDF-Publikationen/a163_kuendigungsschutz.pdf?__blob=publicationFile).

<sup>6</sup> Social Code Book III, [http://www.eurofound.europa.eu/emcc/erm/rll/regulations/view/168/germany\\_code\\_of\\_social\\_law\\_iii](http://www.eurofound.europa.eu/emcc/erm/rll/regulations/view/168/germany_code_of_social_law_iii)

<sup>7</sup> WCA, §§ 111-113, [http://www.eurofound.europa.eu/emcc/erm/rll/regulations/view/58/germany\\_works\\_constitution\\_act](http://www.eurofound.europa.eu/emcc/erm/rll/regulations/view/58/germany_works_constitution_act).

an individual dismissal due to operational grounds, “there is no legal entitlement to severance pay for an employee.”<sup>8</sup>

In order to alleviate the consequences and disadvantages of the business change for the affected employees, employer and Works Council have to settle a “social plan” (§ 112 WCA). The social plan specifies the “criteria by which mass redundancies have to take place”, e.g. criteria concerning a selection of workers made redundant on the basis of social criteria<sup>9</sup> and severance pay for those made redundant (Ebbinghaus and Eichhorst 2006). “If the social plan gives a list of selected workers, these workers do not hold the right to file a complaint under the PADA.”<sup>10</sup> The social plan can furthermore determine the establishment of employment companies (Beschäftigungsgesellschaften) that allow dismissed employees to gain qualification for new positions.<sup>11</sup>

The Works Council can enforce this social plan. If the parties cannot agree upon a social plan, the employer or the works council “may turn to the Employment Agency for mediation and a mediation committee will be set up.”<sup>12</sup> “In practice, the plan typically covers standard full-time and part-time workers and excludes workers on fixed-term contracts, marginal part-time workers, trainees and managerial staff.”<sup>7</sup>

- **Further regulations due to collective agreements**

Due to certain legal regulations or collective agreements, certain groups of employees are subject to special employment protection and exempt from the selection based on social criteria, such as pregnant women, members of the works council or severely disabled persons (Social Code Book IX). Furthermore, a collective agreement can determine that employees with a certain tenure cannot be dismissed under any circumstances. These employees cannot be made redundant due to operational reasons and they are unaffected by the selection made on the basis of social criteria if the regulation by the collective agreement is not discriminatory.<sup>13</sup>

According to a ruling of the German Federal Labour Court in 2006, labour unions facing mass redundancies have the possibility to step in and negotiate a firm collective agreement with the employer, a so-called “Tarifsozialplan”. This agreement is a further measure to alleviate consequences of the dismissals for the affected workers and is concluded in addition to the social plan agreed upon by works council and employer. Since the “Tarifsozialplan” aims at the conclusion of a collective agreement, strikes in order to reach such a collective agreement are permitted.<sup>14</sup>

Besides, collective agreements determine when and how short-time work can be introduced in order to avoid dismissals (see next paragraph).

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<sup>8</sup> PADA, §. 1a,

[http://www.eurofound.europa.eu/emcc/erm/rll/regulations/view/263/germany\\_employment\\_protection\\_act\\_works\\_constitution\\_act](http://www.eurofound.europa.eu/emcc/erm/rll/regulations/view/263/germany_employment_protection_act_works_constitution_act).

<sup>9</sup> The selection based on social criteria is based, among others, on the period of employment, age, family obligations and severe disabilities (§1 par.3 PADA).

<sup>10</sup> [http://www.eurofound.europa.eu/emcc/erm/rll/regulations/view/266/germany\\_works\\_constitution\\_act\\_employment\\_protection\\_act](http://www.eurofound.europa.eu/emcc/erm/rll/regulations/view/266/germany_works_constitution_act_employment_protection_act).

<sup>11</sup> <https://www.gleichearbeit-gleichesgeld.de/leiharbeit-beratung/leiharbeit-von-a-bis-z/betriebsrat/hans-boeckler-stiftung-betriebsrat.pdf>.

<sup>12</sup> WCA, §112a

<sup>13</sup> [http://www.hensche.de/Tarifliche\\_Unkuendbarkeit\\_Altersdiskriminierung\\_BAG\\_2AZR295-12.html](http://www.hensche.de/Tarifliche_Unkuendbarkeit_Altersdiskriminierung_BAG_2AZR295-12.html).

<sup>14</sup> [http://www.hensche.de/Arbeitsrecht\\_aktuell\\_2007\\_Tarifsozialplan.html](http://www.hensche.de/Arbeitsrecht_aktuell_2007_Tarifsozialplan.html).

- **Short-time work to avoid mass redundancies**

According to German Labour and Social Insurance Law, short-time work is defined as the temporary reduction of the usual working-time (§§169 ff. Social Code Book III) and may be introduced “due to cyclical or structural reasons” (Heseler and Mückenberger 1999). Forms of short-time work are

- A temporary reduction of working time (daily or weekly)
- A temporary lay-off.

Employees affected by short-time work receive wage substitution benefits (Kurzarbeitergeld) from the funds of the unemployment insurance (it compensates for approx. 60% of income loss in case of a single worker and 67% for parents). Although the transfers are publicly financed, there remain costs for the employer because they are required to pay social security contributions. Moreover, many collective agreements provide for additional firm-financed payments on top of the 60% (67%) provided by the federal program. Bach and Spitznagel (2009) calculate that the remaining costs for firms not covered (covered) by collective agreements amount to 24-35% (37-48%) of regular labour costs (see also Bohachova et al. 2011).

Unilateral introduction of short-time work by the employer is only permitted if certain legal requirements are fulfilled. In line with rulings of the Federal Labour Court (Bundesarbeitsgericht), the required legitimation can be derived from clauses concerning short-time work in the individual employment contracts or the applicable collective agreement. If such settlements do not exist, the employer and works council can work out a company agreement that acts as legal basis for the introduction of short-time work, or the employer has to negotiate with the individual affected employee. If an agreement cannot be reached, the employer may use a ‘dismissal with the option of altered conditions of employment’ (Änderungskündigung, §2 PADA).

Concerning the introduction of short-time work in order to avoid mass redundancies, there has yet been no ruling by the Federal Labour Court determining whether the employer has the duty to make use of the instrument of reducing working-time if mass redundancies can be avoided. However, applying the principle of proportionality which is inherent in the PADA, dismissals should be seen as an ultima ratio, and thus, the employer is obliged to check the feasibility of short-time work before permanently dismissing employees.

The works council has a right of co-determination with respect to a temporary extension or reduction of the normal working-time (§ 87 par. 1 No. 3 WCA). Thus, even if the legal requirements for the unilateral introduction are fulfilled, the employer has to include the works council into the decision. The latter has co-determination rights regarding the fact, the amount, the period of short-time work, and the group of workers to be affected. If both parties cannot agree on the terms of short-time work, the employer has to appeal to a Conciliation and Arbitration Board which can substitute the needed consent by a legally binding award.

During the economic crisis, the maximum duration for short-time work has been extended significantly. Normally, the use of short-time work is restricted to a maximum of 6 months. The Federal Ministry of Labor can extend this deadline to a maximum of 24 months in situations of extreme tensions on the labor market. This right has been used in May 2009, as the maximum period has been extended 24 months. Subsequently, the maximum duration has been shortened to 18 months.

Short-time work programs have been used extensively by German firms during the crisis. At the peak time of the programme in May 2009, about 1.5 million employees (5.6% of all regular employees) participated. Afterwards, participation started to decline (see Bohachova et al. 2011).

An additional provision that was introduced during the crisis was a benefit for qualification during short-time work. Under this programme, the Employment Agency provides reimbursement of the qualification measures from the European Social Fund, covering up to 60% of the cost of on-the-job-training during short-time work, provided they are executed by certified educational institutions or by equally qualified employees.

- **Other measures to avoid/mitigate mass redundancies**

There are benefits supporting “structural short-time work” (Transferkurzarbeit), a special form of reducing working time. In contrast to “normal” short-time work, structural short-time work is not a measure to overcome a temporary lack of employment but a measure of transfer that aims at a permanent personnel reduction and that helps to avoid mass redundancies and unemployment by at the same time supporting the employees’ search for a new job. According to §111 of the Social Code book III, the receipt of transfer benefits for this kind of short-time work (Transfer-Kurzarbeitergeld) is in general associated with the change of the affected employee to a transfer company, where he or she can gain further qualifications.<sup>15</sup>

The prerequisites for receiving transfer benefits are the following:

- Measures of personnel adjustment due to a change in business (§§111 WCA) are unavoidable;
- Affected employees facing unemployment are gathered into a firm-organizational independent entity (beE) in order to avoid dismissal and to improve the chance of re-integration into the labour market (see transfer-agency § 216 par. 3 SGB III);
- Employer and works council have to consult the employment agency before agreeing on transfer measures;
- During the period of benefit payment the employer has to make proposals about a new employment to the employee.

### 3. Case Studies

In order to illustrate restructuring processes in Germany, we selected a number of case studies, which are also meant to serve as best practice examples. The cases of interest, which will be described in detail in the following sections, can be separated into examples at the regional as well as the establishment level. They were selected according to whether

- Restructuring was anticipated and carried out in a structured way;
- Social partners and other stakeholders were systematically involved and actively participating in the restructuring process;

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<sup>15</sup> BA: [http://pmswitch.de/switch/transfergesellschaft\\_216b.pdf](http://pmswitch.de/switch/transfergesellschaft_216b.pdf)

- Restructuring was successful regarding aggregate labour market outcomes (number/percentage of jobs secured, socially acceptable management of unavoidable redundancies, number of new jobs created and industries settled).<sup>16</sup>

These criteria reflect the objective of the F.OR.M. Pact Project of ITC-ILO, which is meant to eventually provide an operational framework for multi-level and multi-actor synergy towards the adaptation to social and economic changes to the European Commission.

To identify the cases presented in the following, ex-ante research based on the extant literature (scientific and non-scientific, including journal articles and web pages) was carried out, leading to a long list of potential case studies. From that list, a selection was made during discussion with ITC-ILO and other national experts involved in the project, with the aim of providing an interesting and heterogeneous short list across all national case studies while avoiding redundancies as far as possible.

Since the case studies are very different from one another, they will be described separately in the following sections. The first step will be a description of the relevant contextual factors and the precise nature of the action(s) taken. Thereafter, we will continue with their historical development, their functioning and the co-ordination of the actors involved. Then, we will analyse the success of the actions taken as well as the factors that are potentially associated with success. Our analysis will be mainly qualitative, due to the fact that quantitative indicators of success are not available. We conclude each case study by a critical assessment of its transferability to other European regions or companies.

## 3.1 Regional Case Studies

### 3.1.1 Structural Report Stuttgart Region

#### *General Overview*

The “Strukturbericht Region Stuttgart” (Structural Report Stuttgart Region) represents a scientific analysis of the state and the development of the economic conditions in Stuttgart region, Germany, with a major focus on value added, employment and qualification broken down by very fine-grained industries and regional subspaces. It is jointly published every two years by the political entity for Stuttgart Region (Verband Region Stuttgart), the Chamber of Commerce and Industry, the Chamber of Crafts and the Industrial Union of Metalworkers of the region (IG Metall).<sup>17</sup> It is therefore clearly a multi-actor approach, including the social partners responsible for the conclusion of collective agreements and in charge of social dialogue more generally. The analyses are conducted by two research institutes, the IMU Institute and the Institute for Applied Economic Research (IAW).

Methodologically, the report consists of a thorough descriptive evaluation of different representative data bases.<sup>18</sup> While the main analyses in the Structural Report are repeated and updated each time, allowing for comparisons over time, each report also presents a special feature that is particularly

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<sup>16</sup> Of course, since the cases are very heterogeneous, no exact numerical definition of these selection criteria could be applied and the selection of cases relies on an individual qualitative assessment of each case.

<sup>17</sup> While Verband Region Stuttgart bears the primary financial responsibility (50% of the total budget since 2001), the other three publishers finance 16,67% respectively. No additional financing is contributed by the state or federal governments or the European Union.

<sup>18</sup> Most of the statistical data stems from the employment agency and is complemented by up-to-date information by business surveys from the Chamber’s reports on the economy.

important and topical.<sup>19</sup> These special topics are meant to anticipate especially prevailing problematic developments in the region that are still barely perceived. The full list of past special topics can be seen in Table 1. They range from industry studies over aspects regarding the workforce and the innovative potential of the region to questions of upcoming economic trends.

The choice of topics is made during the meetings of the steering committee of the project. Every member of the steering committee has the same rights. (Interview #A, <082>).

**Table 1: Special topics of Structural Report Stuttgart Region**

Year	Special topic
2013	Need for skilled labour and potential of gainfully employed persons
2011	Green economy and mechanical engineering
2009	Turmoil in the automotive region
2007	Enterprise foundations
2005	Innovation
2003	Internationalisation
2001/02	Labour, age, qualification
1998/99	Employment potentials of simple service industries
1996	Labour market participation of women and qualification
1995	Tertiariation and qualification

The results of the Structural Report are communicated to the general public via press conferences and press releases. In addition, a copy of each report is sent to regional policy-makers (members of the parliament of Stuttgart region) (Interview #A, <078>).

The aim of the Structural Report is not only to inform the public and regional economic agents about developments in the region, but furthermore to provide guidance on how to confront them.<sup>20</sup> As an example, we refer to the 7th Structural Report (2009), which analyses the post-crisis development of Stuttgart region focusing on the automotive sector and its perspectives in the light of environmental protection regulations and technological change. This topic is of particular relevance to the Stuttgart region, where the automotive industry takes a lead position in terms of employment and value added. As a conclusion, the report pointed out that the main challenge that firms will have to meet is to enhance the combustion engine while simultaneously preparing for the switch to electro-mobility (and even more: to proactively shape this switch) (Dispan et al. 2009).

All actors interviewed for this study agreed that besides the data analysis, the Structural Report should aim at giving guidance for the agents of the region and for implementation:

*“Since its very beginning [of the Structural Report Stuttgart Region] it was intended to derive tightly focussed recommendations that can be implemented in the region, i.e. that are not addressed to somewhere, Federal Government or EU or anyone else out there, but that are directed to actors in the region”* (Interview #B, <11>).

<sup>19</sup> These special topics change from issue to issue.

<sup>20</sup> It is the publishers’ duty to reflect about a possible guidance concerning the special topic and to communicate problems and to encourage the respective authority/agent in charge to bring about improvements (Interview #A, <28>).

### *Origins and Evolvement of the Report*

The joint Structural Report in its present form was established as a reaction to the economic crisis at the beginning of the 1990s that followed the post-reunification boom and caused a loss of a hundred thousands of jobs in the manufacturing sector. Yet, its existence dates back to the end of the 1980s, when IG Metall published the Structural Report without the assistance of other actors. At that time, the Structural Report was meant to pinpoint the very high specialization of the Stuttgart region in the automotive industry and to raise the question whether this could not be too much of an inappropriate, one-sided and eventually unsustainable approach:

*“[...] that basically a Structural Report already existed at that time, published by IG Metall, in the end-1980s/beginning 1990s that highlighted the risks involved in such a one-sided concentration on the automotive sector and that – even more – posed the question if the future of Stuttgart region as a – in a Germany-wide comparison – region with a high share of employees in manufacturing compared to other regions, if that could be maintained in the long run” (Interview #B, <11>, own translation).*

However, there was agreement at the time among all regional actors that the region’s concentration on the production sector was an advantage and that manufacturing should be preserved as basis for a powerful and productive tertiary sector. Consequently, there existed not only a common diagnosis and a common understanding of pattern of change, but also a shared vision of the future direction.

Further annual reports on the situation of the regional metalworking and electrical industry followed, all of which were published by IG Metall and produced in collaboration with the IMU Institute. None of the interview partners could indicate, however, how this individual action was turned into a collaborative, multi-actor action – although among our interview partners there was one person who had accompanied the project from its very beginnings. Presumably, it was IG Metall which suggested collaborating for a joint Structural Report, and the Chamber of Commerce seized this idea (Interview #B, <007>). In any case, even if that aspect remains unclear, the framework conditions in Stuttgart appeared to be particularly favourable to such a joint action as the Structural Report (see next paragraphs).

### *Existing Social Dialogue Structure and other success factors*

In the region, favourable conditions for collaboration across municipalities were already present prior to the introduction of the joint Structural Report. A Limited Liability Company, the “Wirtschaftsförderung Region Stuttgart”, was founded with the objective to promote economic development in the region. Its target was to include all relevant economic agents in the task of regional economic promotion:

*“[...] in order to involve basically these actors of the economy, I mean the chambers, unions, the Center for Streamlining and Innovation, and several more, up to the Farmers’ Union” (Interview #B, <07>, own translation).*

As one co-partner<sup>21</sup> in this Company of Economic Promotion IG Metall dealt regularly with questions concerning regional economic policy and structural policy and contributed its view that Wirtschaftsförderung Region Stuttgart should take special care of labour market issues in the region:

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<sup>21</sup> Besides, the regional employment agency was also collaborating and was initially represented in the advisory board of the Verband Region Stuttgart.

*“And IG Metall was a member of the supervisory board and participated as a co-partner from the very beginning, representing the Confederation of German Trade Unions [...] and that was basically IG Metall’s motivation to engage itself in issues of regional economic policy and structural policy [...] and they did not cease placing their viewpoints and statements that during promoting a workers’ economy aspects of labour market policy should be taken into account, basically”* (Interview #B, <07>, own translation).

Furthermore, dialogue between the social partners in general had always been practised both amply and open-mindedly in the region, as stated by one of our interviewees:

*“[...] there was sort of collaboration within the scope of collective bargaining. This constitutes a long-term tradition here in Baden-Württemberg and Stuttgart region. And IG Metall as well as the other partners, the social partners, the management, well, they were, if you would like to compare it to the rest of Germany, more progressive and more modern, regarding the introduction instruments of labour market policy”* (Interview #B, <23>).

As an example, a collective bargaining agreement was concluded which put the focus on company-level measures of further training. This was an innovation throughout Germany:

*“That was a sensation throughout Germany at the time [...]”* (Interview #B, <35>).<sup>22</sup>

Summing up, the Stuttgart region has benefitted from favourable communication structures long before the Structural Report was started, and a strong connection between the regional agents has always allowed for a permanent exchange of ideas. Structural policy had always been understood as a collective task, leading to a particular, fruitful climate for restructuring, even through the adoption of new instruments.<sup>23</sup> This climate is deemed vital with regard to a functioning, integrated approach to structural policy and foresight measures of restructuring such as the Structural Report:

*“And when you say, what are the appropriate structures to arrange something like this [this refers to the foundation of the company for Economic Promotion as an integrated approach involving many stakeholders], it is simply to have a, say, good, tight connection, both on a project-per-project basis and in a more structural way as in the Company of Economic Promotion, working group, whatever, where there’s exchange, always. Not to have the Employment Agency engaged in something, the Chambers are doing something as well, and the region itself also pursues something and no one knows from each other”* (Interview #A, <56>).

It also constitutes a condition for transferability to other regions in the EU:

*“Thus, historically much had already been established before the foundation of the region in its present form and the institutionalized, regional collaboration regarding the*

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<sup>22</sup> Even to date, the climate for social dialogue in Stuttgart region can be considered as fruitful. As an example we refer to the fact that the relevant actors were able to agree upon a joint statement putting the way ahead through the recent financial / sovereign debt crisis (to be found at [http://www.region-stuttgart.igm.de/downloads/artikel/attachments/ARTID\\_31692\\_xx38kN?name=Buendniserklaerung.pdf](http://www.region-stuttgart.igm.de/downloads/artikel/attachments/ARTID_31692_xx38kN?name=Buendniserklaerung.pdf), only in German) . Connectedness and solidarity are at the heart of the strategy formulated in this paper, meant to guide Stuttgart region through the crisis while – at the same time – preparing it for the time thereupon.

<sup>23</sup> One of our interviewees named this a climate of “openness” (Interview #B, <76) and related it to the prevailing mix of enterprises of different sizes and the strong position of the group of skilled workers.

*Structural Report [Stuttgart Region], if one goes back further. And I believe this should be taken into account when making suggestions to other regions, that the whole thing [...] needs a certain ecosystem to function well” (Interview #B, <76>).*

The usefulness of the Structural Report is acknowledged by all actors:

*“[...] there is no comparable summary of economic and labour market numbers and developments in Stuttgart Region. Firstly, not referring to the several industries and not so in-depth, i.e. metal, electrical stuff, manufacturing, services and so forth, and well then, digging a little bit deeper, also automotive and such things as well as for subspaces, i.e. the administrative districts” (Interview #A, <32>).*

Furthermore it appears advantageous that the Structural Report, being published every two years, allows for a comparison of the numbers across time.

*“So, regarding this, yes, it is forward-looking, and one can track certain tendencies. But [...] in the end, one is often confirmed in certain aspects, and across the years one is able to meter what will happen and what the further development will be” (Interview #A, <32>).*

### **Outcomes**

While it is difficult to address the issue of effects, since the Structural Report Stuttgart Region is an anticipatory, rather than a retrospective measure, we may nevertheless state a few comments on this aspect. Particularly, all interview partners viewed the measure positively because it successfully helped to inform the relevant regional actors and further re-enforced the collaboration between them:

*“Well, I think, it [the Structural Report Stuttgart Region] made a contribution. As pointed out, catchword *Qualifizierungstarifvertrag*<sup>24</sup> and other, that has always to be seen against the background of this cooperation. The Structural Report Stuttgart Region has permanently informed and sensibilised the political board at *Verband Region Stuttgart*, the members of the *Regionalversammlung* [a regional parliament in Stuttgart Region] on regional economic topics and issues of structural policy” (Interview #B, <39>).*

*“This good cooperation has, say, accompanied the further collaboration with the Chambers in a positive manner, not directly, but indirectly, which then resulted in the *Fachkräfteallianz*<sup>25</sup>, where the Chambers are involved, where the unions are involved, where the employment agency is taking part as well as politics [...]” (Interview #A, <56>)*

Besides that, both of the interviewees stated that there is still potential for improvement. These suggestions for improvement concern e.g. the communication of results, i.e. how to transport the results into the subspaces of the region or how to reach the guilds of the craftspeople. Furthermore, the overall demographical development could be taken into account as a further key factor in regional labour supply, and the report could also investigate how the employment structure is changing with respect to general population developments.

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<sup>24</sup> The first collective bargaining agreement in Germany with a special emphasis on further training inside firms.

<sup>25</sup> Alliance of skilled labour, another collaborative, regional measure aiming at linking regional economic actors, bundling their activities and launching new initiatives if needed. See <http://fachkraefteallianz.region-stuttgart.de/>.

It has also been suggested to include the Employment Agency as additional publisher into the cooperation for the Structural Report and, thus, to broaden the scope of collaborating. In view of changing needs due to technological, demographic and other developments, there is an on-going reflection and discussion about the form, the content and the methodology of the Structural Report.

### 3.1.2 The Master Plans “Emscher Zukunft” and Emscher Landschaftspark”

#### *General Overview*

In the aftermath of the International Building Exhibition (IBE) “Emscher Park” which was designed by the German federal state of North Rhine-Westphalia and took place between 1989 and 1999, two master plans, “Emscher Zukunft” (Emscher Future) and “Emscher Landschaftspark” (Emscher Landscape Park), came into being in order to continue the work done during the. These two master plans – like the IBE – aim at redesigning the water ways and the landscape in the Emscher Region, in the Midwest of Germany, around the area of Essen and Dortmund (the region is named after the river Emscher and was once described as “a part of the Ruhr region which had been suffering the most from economic, environmental and social decline for many decades” (Shaw, 2002).

The master plans which are in force in the period 2006-2016 define overarching aims that are meant to be fulfilled by a multitude of very heterogeneous projects with concrete actions, which are too numerous to be described in detail. The overwhelming number (more than 200<sup>26</sup>) of projects and proposals for projects constitute thus the operational level of the initiative.

While the IBE and the two master plans “Emscher Zukunft” and “Emscher Landschaftspark” certainly can be viewed as an (enormously complex) infrastructural measure, it is to be emphasized that they nevertheless constitute a restructuring measure. The primary focus is not so much labour market policy but industrial policy. The initiative takes a holistic approach. For instance, projects aim at attracting new firms by improving the quality of life in the region, thereby preventing that qualified labour migrates to other, more prosperous German regions.

The two master plans are conducted and coordinated by Emschergenossenschaft (“Emscher Zukunft”) and Regionalverband Ruhr (“Emscher Landschaftspark”), respectively. While Emschergenossenschaft is a public non-profit association for water management with one of its main tasks being waste water treatment, Regionalverband Ruhr is the association of eleven cities and four administrative districts within the region with a focus on regional planning. Together, they form the Arbeitsgemeinschaft Neues Emschertal, an umbrella organisation meant to coordinate actions *across* the two master plans.

While the master plan “Emscher Zukunft” is being financed via contributions of members of Emschergenossenschaft and long-term loans of the European Investment Bank, the master plan “Emscher Landschaftspark” draws on funding from the Bundesland North Rhine-Westphalia, the municipalities (co-payments<sup>27</sup>) and the European Union.<sup>28</sup> Likewise, Emschergenossenschaft increasingly applies for projects that are promoted by the European Union.

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<sup>26</sup> [http://www.ag-neues-emschertal.de/ag\\_neues\\_emschertal/index.php](http://www.ag-neues-emschertal.de/ag_neues_emschertal/index.php).

<sup>27</sup> Interview #C, < 003 >

<sup>28</sup> <http://www.metropoleruhr.de/regionalverband-ruhr/emscher-landschaftspark/konzeption.html>.

### *Origins and Evolvement of the Master Plans “Emscher Zukunft” and “Emscher Landschaftspark”*

Since the 19<sup>th</sup> century, the Emscher District has been one of the industrial centres of Germany and has attracted many people who sought work in the mines and factories in the region (mostly belonging to the steel industry). As industrialisation increased, many rivers such as the Emscher River were used to discharge sewage. Therefore, many of the water bodies in the Ruhr district were heavily polluted.

It is against this background of dramatic environmental and hygienic shortcomings – *“the people literally lived in the waste waters”* (Interview #C, <003>) – that the foundation of Emschergenossenschaft took place. In 1899, industry, municipalities and mining companies agreed on collaborating and undertaking measures to keep the workers healthy and in an employable condition. Emschergenossenschaft was supposed to remove the sewage. It did so by building an *above-ground* waste water system using the existing waterways in order to transport the waste water into the Rhine. Consequently, only people that couldn't afford better settled in Emscher region, and today's social inequality in the region still may stem from that time (Interview #C, < 043 >).

Against this background, in the context of the IBE there was a common among regional actors that

*“if one could alter this above-ground sewage system [...], perhaps by saying >>one nevertheless wants to build a below-ground sewage system and eventually recultivate the waters”* (Interview #C, <003>).

After a pilot project had been implemented and proved to be successful, the way was free for the master plan “Emscher Zukunft” which aims at renewing the sewage system and recultivating the waters in the whole region.<sup>29</sup>

In addition to the difficult environmental situation, Emscher Region has been facing structural crises in the mining and steel industry since the end of the 1950s. Although this was counteracted by investments in infrastructure and by founding universities in order to foster education and to create a technological centre in the region, the infrastructure was still inadequate, the self-image of the region was weak and people had to be prepared to face the ongoing structural changes (Interview #D < 175 – 179 >).

To deal with the manifold problems in the region, the federal state North Rhine-Westphalia initiated the International Building Exhibition (IBA) in 1989 with Emscher Landschaftspark, the predecessor of today's initiative, the master plan “Emscher Landschaftspark”, being a central pillar:

*“Emscher Landscape Park was project number one of the International Building Exhibition Emscher Park, and the first decade of this project was so-to-say chaired, directed, creatively inspired by the International Building Exhibition. //mmh// And [the predecessor of Regionalverband Ruhr at that time] was a partner in the presentation, in that sense, //mmh// and did the so-called routing planning.”* (Interview #D < 021 >).

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<sup>29</sup> A further part of the master plan “Emscher Zukunft” consists in building cycle ways along the waters, which is seen by our interviewee as an important means to improve the quality of life in the region and thus its attractiveness (Interview #C, < 019>).

The general aim of Emscher Landschaftspark was to recultivate the landscape, to revalue the region and to improve the living quality in order to attract skilled workers and investment while creating an attractive and healthy landscape park between the cities of the Emscher Region (Interview #D < 045 >).

After the end of the IBE in 1999, the Masterplan Emscher Landscape Park was initiated to determine how the Park was to be developed further and where it needed to be re-networked. The Masterplan was developed between 2001 and 2006 under the co-ordination of Regionalverband Ruhr, in close cooperation with the participating municipalities.<sup>30</sup>

### *Co-operation and Co-ordination Within and Across the Master Plans*

Co-operation has been a central element of Emscher Landschaftspark and the corresponding master plan since its very beginning. Regionalverband Ruhr – which had been founded in 1923 in order to create the infrastructure that is necessary for a successful regional development and, particularly, to *establish connections* between roads that belonged to different the municipalities – was meant to counteract the famous “parish-pump mentality” of the various communities in the Emscher region. Thus, from its very beginning, its aim was to overcome individualistic behaviour and to foster collaboration between the municipalities in the region.

Cooperation was *not* achieved by centralistic, hierarchical constructions with steering committees and the like; rather, it was a “[...] *very decentralised, inter-connected, sewed, anchored project* [...]” (Interview #D, <089>), and albeit Regionalverband Ruhr is taking a leading role as a coordinator, it hasn’t got any directive power. Or, as one of the interviewees put it:

*“So, it’s not the question of owning this park. It’s not about coming to possess 457 //mmh//, even not municipal possession. Rather, we have in mind to instigate, stimulate, support this urban landscape owned by third parties; that one talks to the farmers //yes//: >>What else could you do?<<, that one with the carriers of infrastructure who have got the power supply lines: >>What could you contribute? //mmh// that one discusses with [a supplier of road infrastructure]: >>What could you do about the embankment?<<, etc.”* (Interview #D, <114>).

This decentralised organisation of the master plan „Emscher Landschaftspark“ is also seen as an efficient way to set incentives for agents to develop the land by their own rather than being ordered to do so by public authorities. Furthermore, it was able to integrate so many individual demands:

*“This aim to—to obtain the most beautiful landscape or the strongest commitment of an owner for an enhancement of his property, his urban district, etc., ahm, needs to be an actor’s intrinsic motive //mmh//, and to this aim, this system is helpful //ok//.”* (Interview #D, <237>).

Since the very beginning of the restructuring project, there has been a great deal of regional cooperation between the actors involved in the two master plans, in particular concerning the municipalities in the region, which agreed to integrate their own measures of urban building into the

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<sup>30</sup> To be more precise, “Projekt Ruhr GmbH”, an enterprise which was owned by the Land North Rhine-Westphalia and in task of promoting economic development and which was merged with Regionalverband Ruhr in 2006, received the task to compile a first draft for the Masterplan. This draft was then discussed among the participating municipalities (Interview #D, <033>).

master plan “Emscher Zukunft” (Interview #C, < 015 >). Formally, the municipalities of the Emscher Region are members of Emschergenossenschaft and of Regionalverband Ruhr, indicating a tight connection between the different stakeholders.

Additionally, there is also a linkage to the industry, as (big, industrial) firms of the region that dispose of their sewage using the waters supervised by Emschergenossenschaft are compulsory members of the association (Interview # C, < 019 >). Last but not least, the Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety, which is also the supervisory authority of Emschergenossenschaft, forms part of the board, and employees are represented as well (see Interview # C, < 035 >). Concerning the master plan “Emscher Landschaftspark”, representatives of the Chamber of Craftsmen participate in many committees of Regionalverband Ruhr (though as mere auditors only) (Interview #C, < 035 >). In this sense, multi-stakeholder involvement is an important characteristic of the two measures.

To co-ordinate the various actions across the two master plans an umbrella organization, “Arbeitsgemeinschaft Neues Emschertal“, was founded, and both Emschergenossenschaft and Regionalverband Ruhr take part in it. Co-operation across the two master plans can best be described as loose and informal:

*“But, pragmatically, one has to say, it’s not like >>we come together once in a month << and, >>well, what topics have we got, where do we have to collaborate? Rather, spatial proximity is, of course, sensible [...] Likewise, in principle, we invite each other to bigger events, consult ourselves, [...] we are active in accordant working teams. [...] And only if in in some place there’s problems or alterations, there’s a steering committee [...] where the top levels of both institutions participate in.” (Interview #C, <031>).*

### ***Outcomes of the Master Plans “Emscher Zukunft” and “Emscher Landschaftspark”***

As the two master plans are still ongoing, it is not easy to assess their overall effects. Yet, one first thing to note is that due to the IBE, old industrial sites were successfully preserved and made accessible to the general public. As an example, the so called ‘Industrial Heritage Trail’ connects museums and exhibitions about the industrial revolution in the Ruhr area, comprising among many others the World Heritage ‘Zeche Zollverein’. Consequently, the Emscher region is viewed as increasingly attracting tourists by one of our interviewees: *“And in the meantime, the Ruhr region has become a popular tourist destination, too, because people just love walking on old smelting furnaces”* (Interview #C, < 056 >).

Several attempts have been made to evaluate whether the restructuring had already triggered changes and improvements. Recently, the economic research institute RWI conducted an empirical analysis of the regional economic effects of the primary water management measures (RWI 2013). The research question was thus whether the renovation of the water system had an impact on job creation, regional economic growth and added value for involved firms. Also, indirect effects of the rebuilding on life quality in the Emscher region were evaluated by considering the development of real estate prices in the relevant region.

The authors find positive employment and growth effects of the restructuring project. They calculated that throughout the period 1991 to 2020, about 3,700 jobs per year were saved or created due to the demand effect stemming from rebuilding of the water system. The main beneficiaries were the building sector and related businesses. Disposable income in the region was increased,

which in turn created additional demand for consumption goods. Further tax revenue created by the renovation of the sewage system was estimated at around € 50m for the period 1991 to 2020. Concerning real estate prices, the authors found that houses and apartments on offer became cheaper on average, but this result was mainly driven by low-end items for which demand was not high enough, while there was a high demand (and price increase) for houses and apartments at the upper level of the quality scale. No effect on rents was found.

In spite of these overall positive effects, there are clearly differences in the effects of individual projects. Some of them failed to meet the expectations. For example, Lake Phoenix – which was built on a former steel plant site – is viewed as not overly successful by one interviewee:

*“Lake Phoenix, [...] around it, there is an urban district named Hörde, which is a former steel district, high immigration shares, high unemployment etc. [...] But it was discovered that that there is virtually no effects on the, well, it’s so-to-say only the quayside, directly, but it doesn’t emanate into the urban district.” (Interview #C, <080>).*

One of the interviewees expressed his skepticism about the effectiveness of the programme concerning the settlement of new firms and industries (*“if I said: >>Yes, for that reason we have got new investors here today>>, that would be a strong exaggeration.* – Interview #D, <215>). While there are different views on the effectiveness of particular projects and regarding particular outcomes, there is agreement that cooperation (between municipalities) itself is seen not only as a means to face the necessary restructuring but also as a genuine outcome of all the initiatives centered around the IBE.

## 3.2 Company Case Studies

### 3.2.1 CHF Automobile Components

#### *General Overview*

CHF Automobile Components is a German automotive supplier with production sites in numerous European and Asian countries as well as in the United States and Mexico. As of 2013, the company had about 5,000 employees worldwide. Though internationally operating, the enterprise has been a family business since its establishment in 1910. It is a global market leader in the field of vehicle components, specialised in manufacturing storage solutions, covers and other car accessories, according to its own website.

Like the car industry in general, CHF Automobile Components was hit hard by the economic crisis after the Lehman crash in 2007 and has taken bold measures to overcome the crisis. In doing so, the management has involved the works council and received broad support for the restructuring measures.

#### *Reactions to the Economic Crisis*

CHF Automobile Components couldn’t fail to take note of the economic crisis: apart from orders being cancelled in great numbers, they were confronted with a striking lack of new, incoming orders. This development came out of a sudden and hit the company completely unprepared.

As a first reaction, the management ordered a complete hiring freeze and terminated all contracts with external trainers and other external service providers, such as external engineers and agency-based workers in general.

*“And suddenly we were told to cancel everything, absolute hiring freeze, and >>now, we have to save money<<, that was in principle how we realised it, i.e. consequently stopped from naughty to sixty. I think that the sales department noticed it similarly, that suddenly all orders were countermanded if possible. That’s how it was for us, too, we stopped all – I mean: all – costs that could be stopped somehow. That affected advanced training, I had to review all external measures, all external trainers, everything, and what we wouldn’t have had to pay in any case, everything was cancelled and run down to a minimum, also we reduced all external service providers except for which was absolutely necessary.” (Interview #E, <013>).*

These measures which primarily helped the firm to reduce avoidable costs and to prevent any build-up of unnecessary labour costs were in force until the firm recovered (Interview #E, <049>). To accompany these measures, short-time work was introduced for the German production sites, meaning that working days were reduced to four per week for all non-management employees (Interview #E < 065 >).<sup>31</sup>

Importantly, instead of just cutting working time, the firm took advantage of this ‘spare day’ to arrange for additional training for their employees (Interview #E <073>). In order to do so, CHF Automobile Components received financial and non-financial support by the local Employment Agency. This provided the company with information and advice on how to receive funding from the European Social Fund (ESF, for further details see the box below).

Additionally, an “Innovation Offensive” was started in order to improve the current products and to further develop ideas for new products. Together with the other measures described above which allowed the company not only to cut costs but also to retain valuable human capital embodied in their employees, this strategy was key to take off again once the crisis had passed.

*“And also retained our skilled labour, no qualified employees had to leave, because at some point in time the crisis was over and then you need to go full-steam ahead, and if in this case you have to look for the people, which we didn’t, then it’s going to be difficult.” (Interview #E, <069>).*

*“[...] so we said to ourselves >> o.k., we’re going to take benefit from this time when we have got less orders in order to deepen product ideas and to improve products, and this created a great, positive feedback from our clients.” (Interview #E, <098>).*

Last but not least, when the crisis was over and orders began to increase again, working hours were increased to 42 hours per week without any wage compensation. This constituted a voluntary 10% wage decrease for all employees. This measure was eligible in the first place because CHF Automobile Components was not bound by a collective wage agreement and also had the full backing of the works council.

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<sup>31</sup> Besides, in order to save costs CHF Automobile Components also consolidated two of its production sites which were rather close to each other.

## Financial Support for Qualification Measures during Short-Time Work from the German Employment Agency

The local Employment Agency supported CHF Automobile Components in obtaining grants and support funding during the Crisis. The Employment Agency offered information about available funds and supported the application process for these funds. The Employment Agency and CHF Automobile Components had already worked together in past cooperations, when CHF Automobile Components wanted to fill some vacancies. At the outset of the crisis CHF Automobile Components, approached the employment agency to determine possible measures during short-time work (Interview #F, <031>).

The application process was described as “very transparent and comprehensible as well as very unbureaucratic” (Interview #E, <086>) by the representative of CHF Automobile Components. In general the coordination between the management and the employment agency was very close and the individual advice offered was well received:

*“We had an excellent consultant at the Employment Agency who showed up instantly and whom I talked to almost every day, and I have to say >>The cooperation with the Employment Agency was perfect!<< [...] he came to us, looked at everything and told us: >>Listen, we have got this and that pot of money available.”* (Interview #E, <086>).

One of the main tasks of the Employment Agency according to the interviewee was to simplify the complex (application) regulations and to communicate the availability of the funds to firms in the region which were perceived as the main barriers for firms to apply for funds. This is considered to be particularly true for small firms, because they have a lower capacity and cannot deal with extensive regulations and provision of a funding scheme (Interview #F, <069-071>). Thus, the employment agency cooperated with the Chamber of Commerce and the industry to organise meetings with local firms from various sectors such as metal working industry, crafts and trade. In addition, the employment agency established a mailing list through which additional information about the current legislative situation was distributed (Interview #F, <031>, <083>).

*“And that – worked out reasonably well. Despite these – you see the obstacles. The obstacle is the complexity.”* (Interview #F, <083>).

## Outcomes

The measures helped to stabilise the situation of CHF Automobile Components during the crisis in a two-folded way: (1) by cutting costs and (2) by allowing the company to take off again very quickly when the crisis had passed. In 2010, total sales were 10% higher than in 2007, at the beginning of the crisis. Furthermore, layoffs could be avoided regarding the core personnel (though some probationary contracts were terminated and most of the external, agency-based workers had to leave). Particularly, the company was able to retain its skilled employees during the crisis.

Lastly, the steps which were taken to use the times of low capacity utilisation for training of the workforce and development of new and improved products further strengthened the position of CHF Automobile Components and set the foundation for successful recovery once the crisis was over. The innovations which were achieved during this time were particularly well received by the customers.

### *Success Factors and Implications for Transferability to Other Firms*

A precondition for the success of these measures was that employees were prepared to participate in the training courses even if they were not obliged to do so and did not receive any extra compensation. This was particularly pointed out by both of our interviewees from this case study (Interview #E, <069>, Interview #F, <069-071>), altogether with noting that a special team spirit has to be present in the company.

An essential element is that management and works council find a common ground and act in (mutual) accordance with each other, which was the case for CHF Automobile Components:

*“Well so, all this was agreed upon by the works council which didn’t put a stake in our wheel, on the contrary, the works council asked together with the management: >>what is good for the firm at this point in time?<<. I think this would have been harmful if this had been different, but one must say the works council was very constructive.”* (Interview #E, <090>).

Replying to the question how these preconditions were fulfilled she stressed the very good information policy of the company. Regular meetings took place during which both management and works council informed the staff about the latest developments in a credible and trustworthy way:

*“Certainly by feeling well-informed. So we had these regular information events, every eight weeks at the latest, during which [...] a simple report was given: >> That’s how it’s looking like right now.<<, and nothing was whitewashed, but also positive developments [...], and at some point in time one realised: >>Well, it’s going up again [...]”* (Interview #E, <134>).

Apart from the team spirit present in the firm, some other important aspects shall briefly be mentioned here, some of which are internal to the firm, and some are external. These are: CEO experience, client and product structure, a particularly good cooperation with the employment agency (as mentioned before) and – closely connected to this last point – the complexity of regulations and firm size.

*“[...] our four CEOs are very prudent, and particularly the head of management comes from the banking sector; he really steered the enterprise, like a big ship, very calmly through the crisis”*(Interview #E, <025>).

*“CHF Automobile Components never makes itself depend on solely one customer, this has always been very important.”* (Interview #E, <102>).

*“[Some] CHF Automobile Components products are also postulated to be part of a car due to safety reasons. [...] And so, there’s a necessity that CHF Automobile Components’ products have to be present in a car.”* (Interview #E, <122>).

In general, the type of on-the-job-training performed by CHF Automobile Components is only possible with a minimum number of employees. Owners of small companies with only two or three employees cannot afford to train their employees while keeping up the functioning of the company (or even to have them trained). Consequently, small companies were underrepresented among the firms which received support from the employment agency.

Furthermore, small firms may lack the expertise to deal with complex application procedures (see footnote **Fehler! Textmarke nicht definiert.**), even though the local Employment Agency put great effort into easing the process of application and the whole handling of the measure: *“Honestly, I believe I could have gotten better access to the small [firms] if the regulations foreseen by the law had been less complex”* (Interview #F, <119>). Symptomatically for this, the same interviewee also expressed his belief that already the pure mentioning of the European Social Fund may exert scaring effects particularly on small firms, since the ESF has got the reputation of being overly complicated (Interview #F, <123>).

### 3.2.2 Ucelamet Machinery<sup>32</sup>

#### *General Overview*

The Ucelamet Machinery Corporation was established as a family business in 1928. Located in a small town near Stuttgart it develops and produces machinery used in the construction sector. The group as a whole comprises subsidiaries in over 50 countries and employs currently 720 workers.

Management failures and the non-existence of any risk-management-system or controlling-system were i.a. reasons why the corporation found itself in a precarious situation in 2013. This lack of any risk-management system or controlling system altogether with an outdated IT-infrastructure rendered a sound liquidity strategy impossible, since it was not possible to perform analyses or to produce valid forecasts in order to find out whether produced products or clients were profitable. Thus, looking ahead was not possible, and the reporting merely focused on the past. The lack of transparency was another major issue: for example it was unknown how much liquidity the subsidiaries disposed of (Interview #G, <015>, <019>).

Since the shareholder and creditors didn't reach an agreement and any prospect of improvement in the short term was lacking, the management had to file for insolvency in summer 2013. Consequently, the creditors' claims were put on hold while the company member, despite remaining company member in a legal sense, had no rights any more. All company shares were transferred into a trust company, and at the request of the creditors an independent chairman and expert for restructuring was appointed.

#### *Reactions to the Company Crisis*

Ucelamet Machinery could use the filed insolvency as a restructuring measure. A reorganisation report set out the operational strategy for the two subsequent years. It showed that recovery was possible since conditions were generally favourable: Being a global leader, the corporation's position in the market was good, its products were of a high technical standard and the sales department was well positioned (Interview #G, <068>).

Thus, a step ahead was possible and in January 2014 Ucelamet Machinery which so far had been run as a Limited Liability Company was re-launched as a stock corporation. Ongoing operations and assets were transferred from the old limited liability company to the completely new stock corporation, Ucelamet Machinery Inc. The underlying aim is to enhance Ucelamet Machinery's corporate value and to eventually sell it, in order to allow for a higher quota for the creditors (Interview #G, <044>).

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<sup>32</sup> Company name altered by the authors for reasons of non-disclosure.

Besides the formal reorganisation of the company, there were hundreds of individual measures that were assessed by a web-based special restructuring-tracking-tool that was established precisely to monitor them and to determine their results and the implied liquidity effect. Such measures comprised e.g. the professionalisation of the sales processes, the analysis of the subsidiaries' performance and possibly local restructuring activities. Furthermore, the product portfolio was renewed, delayed innovations were promoted and also the IT infrastructure was modernised. Remarkably, an encompassing (and expensive) Enterprise Resource Planning software was introduced, which not only helped to increase the transparency of the recovery process to external creditors (Interview #G, <084>) but is also deemed vital for proactively shaping the future success of the firm:

*„[...] many people think, that during restructuring or restoration they have to save money, basically; that's rubbish! In order to attain certain effects on saving I possibly have to invest money in the first placem and that's something many people don't take into consideration.“ (Interview #G, <084>)*

With regard to finance, the corporation made use of the so-called 'insolvency money', a financial support provided by the Employment Agency that covers the employees' wages during a period of maximal 3 months. This extra money triggered an important savings effect. Beyond that, the corporation received no further public support (Interview #G, <041>, <080>).

The recovery included the selection of 50 employees to be dismissed, which was done according to a Social Plan previously agreed upon by the management and the works council. Subsequently, these employees were not dismissed, though, but rather they were transferred into an interim employment society, i.e. an Employment and Qualification Company, in order to provide them with qualification measures and training as to promote their re-integration into the labour market. This measure was designed for a 12-months period and considered exceptional by our interviewee taking into account that the company was insolvent: (Interview #G, <052>).

### **Outcomes**

Overall, the re-organisation measures undertaken led to a good recovery of the whole firm. Apart from formally re-organising the firm as a stock corporation, Ucelamet Machinery managed to ensure its position as global leader by successfully realigning its production processes, developing new products and establishing new firm cooperations (Interview #G, <088>).

With regard to the employees, the majority of those laid off and transferred to the Employment and Qualification Company have found a new employment, according to our interviewee. Yet, the fact that the (prospering) cities of Stuttgart and Karlsruhe are nearby certainly contributed to this, and thus, there were further conditions that generally made it easier for those employees to find a new job, and the fact that they apparently did find a new job must not be attributed uniquely to the training measures they received (Interview #G, <060>).

### **Success Factors and Implications for Transferability to Other Firms**

In the case of Ucelamet Machinery, there are at least two major factors influencing the success of the measures taken that need to be mentioned: multi-stakeholder involvement and communication.

As for the first one, the recovery process involved many actors of different levels and interests, and was completely dependent on their mutual cooperation. First of all, the filed insolvency could only be

used as a measure of recovery due to the creditors' support, agreeing on the construction of the stock corporation. Their approval to temporarily put their claims on hold and to allow the management to carry on operations certainly was an issue of trust: Their support showed confidence in the management and the insolvency administrator, concretely in that their envisaged strategy would work out and the necessary monitoring mechanisms would be created (Interview #G, <044>).

Moreover, the co-operation between the external chairman and the consultant for the reorganisation report was very fruitful:

*"Then one's got the restructuring consultant as a supporter, of course, with whom one is in tune, as a general rule. That's also important in this special restructuring case. Basically, one knows each other [in the scene], knows with whom one can collaborate well, and also who is well-accepted by the creditors." (Interview #G, <092>).*

Furthermore, the co-operation with the works council and union was very constructive. The Works Council had noticed the problems for years and had already expected a redundancy. The union was also ready to co-operate, according to our interviewee because they had realised that only through cooperation a solution to continue operations could be found that was ultimately best for the employees (Interview #G, <056>). Also, the downsizing took place according to a social plan agreed upon by works council and management. Thereby it was ensured that the social plan was fair but that nevertheless know-how carriers that were indispensable for the continuation of operations were selected in co-ordination with the corresponding department managers and kept in the corporation (Interview #G, <116>). Last but not least, the establishment of an employment and qualification company was a result of negotiations between the management, the works council and the insolvency administrator. It is to mention in this context that the latter is ultimately deciding and was not forced to allow for the establishment. Overall, the good co-operation between the management and the works council is believed to crucially affect the restoration process by our interviewee, which is also seen as an outcome of an imperfect legal situation:

*"[...] And if a works council, which did not occur in this case, but in other cases that I experienced, thus, if works council 'blocks' and you have to go through a reconciliation process or something like that, then you end up endangering the whole thing, just because individual parties block. And, well, that's a great pity, because sometimes the situation is 'either black or white' and only one way to do it works out, and that's still not so well-deliberated, legally speaking."*

With regard to communication between the various stakeholders our interviewee stresses that, since during a recovery process, it is of crucial importance to act quickly, it is equally important for the management to communicate very openly with other involved actors like shareholder(s), employees, works council, financial partners etc., because otherwise the whole process could not be sped up (Interview #G, <132>). This is said not to be always easy, because enterprise cultures are so heterogeneous. As for the case at hand, Ucelamet Machinery was a family business prior to the reconstruction and was run in a rather patriarchal manner, meaning that downwards communication and information provision were not considered desirable at first. Yet, this view could be altered and employees were regularly informed about the ongoing recovery process and, particularly, they were asked about suggestions for improvement, which *"[...] many people don't do"* (Interview #G, <040>).

With regard to communication with external people, customers and suppliers had been informed about the insolvency and recovery process. The sales representatives were trained and given conversation guidelines to be able to manage the situation and to offer clients a perspective. This was deemed an important measure in order to create trust and to counter competitors that tried to take away Ucelamet's clients (Interview #G, <096>).

Last but not least, by involving the press the management succeeded to attenuate the tensed atmosphere that was a result of initially negative headlines. For instance, the establishment of the stock corporation was published in the beginning of 2014. By this open communication strategy the corporation could put an end to many stakeholders' doubts and uncertainties:

*"Well, yes, I mean, the team's mood gets spurred on by press articles [...] and insofar it is important to steer the media a little bit, and I think, we made a good job. [...] They have to grapple with the situation, and you [as a manager] are well-advised to communicate a lot. [...] And in the beginning of the year we announced the building of the stock corporation, and in March we eliminated even the last sceptic on the client side by presenting ourselves [and our new products] on a fair." (Interview #G, <096>).*

While it is generally questionable to which extent the restructuring process of Ucelamet Machinery itself can be transferred to other firms, because every insolvency is different according to our interviewee and it would not help applying a one-size-fits-all approach to each of them (Interview #G, <108>), it may not be equally questionable whether agreeing on a social plan and transferring those employees that are to be dismissed into a re-qualification company could not work out for the majority of firms in similar troubles as Ucelamet Machinery. Clearly, there is no guarantee that those measures will always help to avoid mass dismissals, as their functioning was described to depend also on the overall economic performance and the labour market surrounding the insolvent firm. However, all stakeholders may be advised well by examining at least its opportunities for success.

#### **4. Conclusions from the German Case Studies**

The four case studies, despite making use of very different instruments and coordination mechanisms, represent multi-actor and multi-level approaches to encounter (social and) economic change. According to their respective nature, the actors include

- Political entities, regional economic agents and scientific experts (Structural Report Stuttgart Region);
- Local actors from municipalities and other regional bodies as well as companies and trade unions (Emscher Landscape Park);
- Management, works council and employees as well as the local Employment Agency (CHF Automobile Components, Ucelamet Machinery).

While the Structural Report Stuttgart Region is – though born after the regional job losses in the 1990s – clearly an anticipatory measure, Emscher Landscape Park and the advanced training during short-time work at CHF Automobile Components are measures to implement restructuring in an ordered, systematic and cooperative way. Similarly, the restructuring process at Ucelamet Machinery

can be considered very structured and cooperative, nevertheless it has got a different direction in that it almost uniquely aims at renewing the firm and its products. While this is not generally to be considered negative, one also has to state that apparently there was no further training for the majority of the employees as in the case of CHF Automobile Components. Instead, only the employees that needed to be dismissed received such training measures (after being selected according to a social plan subject to prior negotiations between the management and the works council). To this aim, they were not dismissed but rather transferred to an employment and qualification company. While the Structural Report Stuttgart Region and the measures taken at CHF Automobile Components as well as at Ucelamet Machinery deliver concrete benefits, the master plans Emscher Future and Emscher Landscape Park provide a framework for concrete actions and take a holistic viewpoint.

All cases stand for a structured way of preparing for and dealing with social and economic change. In all cases, there are formalised elements of coordination between actors; in addition, informal elements and the flow of knowledge between actors has also proved to be crucial. The case studies differ, however, with regard to how the involvement of stakeholders is organised. While in the case of the Structural Report Stuttgart Region the actors opted for a joint publishership with regular project meetings and the management of both CHF Automobile Components and Ucelamet Machinery chose to regularly and transparently inform its stakeholders about their current situation, coordination of the municipalities in the case of Emscher Landscape Park is much more footloose and decentralised, and formal steering committees and similar bodies have only a moderating role.

These differences are substantially due to the social dialogue structures that were already present before the respective measures were taken: while there was a close cooperation between the management, the works council and the union in the case of Ucelamet Machinery and while the actors of both the structural Report Stuttgart Region and CHF Automobile Components could build on a long history of fruitful formal and informal cooperations, partnership and trust, the opposite holds for Emscher Landscape Park. Importantly, it was one aim of Emscher Landscape Park to overcome the individualistic behaviour of the municipalities concerned.

Each of the four case studies reveals a common diagnosis of the contextual change and a collective understanding of the pattern of change. In Stuttgart Region, the actors shared the impressions of the economic crisis in the 1990s. They were aware of the – potentially too – high regional specialisation in the automotive industry and felt they had something to do in order to avoid similar job losses in the future. Also in the case of Emscher Park, a common spirit was present or stimulated during the IBE. Regarding the case of CHF Automobile Components, the actors shared the view of the dramatic development of the economic crisis starting in 2007, and the interviews point to the presence of a special team spirit. This common “mission” guided the respective actors on their way towards their common goals. Similar observations hold for Ucelamet Machinery, where works council and management viewed the problems in the same way and also agreed with the actions to be taken.

Regarding the outcomes of the measures taken it is – perhaps naturally – easier to assess the performance of the two company case studies performance than that of the two regional cases. CHF Automobile Components had a great success because it managed to retain its human capital during the crisis and could rapidly restart after the crisis was over. Apart from phasing out fixed-term contracts and decreasing the number of agency-based workers no jobs were destroyed, and the company experienced a rapid sales growth. Ucelamet Machinery on the other hand is successful

insofar as the company is widely recovering and as most of the employees transferred to the employment and qualification company apparently could be re-integrated into the labour market.

While the interviewees agree in attributing an important role to the Structural Report Stuttgart Region, the opinions regarding the success of Emscher Park are more diverse, pointing to the fact that it is a very long, generation-spanning process of change that was triggered with the initiative.

While the experiences of the cases analysed are – in principle – transferable to other regions or companies, the analysis has shown that the success of the measures depended in each case also on success factors that were not under the direct control of the actors involved. To which degree these preconditions exist in other cases must be carefully examined before similar measures can be applied.

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