Eurofound

Dutch insurer (The Netherlands) - Case study

Topic: Restructuring | Observatory: EMCC |

Abstract

This illustrative case study was conducted as part of a larger research on the restructuring impact on the remaining employees in restructured companies. The key findings are published in the ERM restructuring report 2018. This company case is about the restructuring undertaken by a Dutch provider of income insurances. From 2012 until 2015, the company experienced two main restructuring rounds with layoffs, mainly due to changed market conditions. The analysis in this case study is mainly focused on the second round of restructuring. After the first round, the Dutch company implemented various measures to limit negative effects of the restructuring for employees, before, during and after the restructuring process. Having learned from omissions and problems arisen from the implementation of the first round of restructuring, the top management not only wanted to abide by legal conditions in the second round of restructuring, but also directed more attention to support employees to cope with the restructuring. The interviewees conclude that investing in sustainable employability of employees is the best way to prevent negative effects of restructuring. By investing in the professional development of employees, the organisation can be prepared for changing demands. As such, the need for future layoffs should be minimised. Also, sustainable employability enhances employees' career opportunities, making them less vulnerable for long-term unemployment.

About

Case study name:	Restructuring in SMEs in Europe (/case-study-names/restructuring-in-smes-in-europe)
Country:	Netherlands
Organisation Size:	250-500
Legal Form:	Private
Sectors:	Financial services

Organisational profile

The Dutch company is a provider of income insurances (NACE Code 65.12; Income and life insurances) and operates in the financial sector. A large pension group is the only shareholder of the company. As of 2016, the company currently employs around 250 employees. Before the restructuring, more precisely in 2012, the number of employed was 431. As the Dutch company is part of the shareholder group which has a working relationship with five trade unions representing the staff (FNV, CMHF, De Unie, VCPS and CNV). The staff is also represented by the works council, which according to Dutch labour law has an advisory role in restructuring processes.

The company operates in a region with an unemployment rate slightly below the national average (6.6% for the region versus 6.9% for the Netherlands in 2015). The lower level unemployment rate is partly caused by external mobility of the working population from this region (people aged 18-65). The average age of people in this region is increasing sharply. Especially in the financial sector, the number of unemployed workers in this region increased in 2015. This environment offered little job opportunities for those who would lose their job during the restructuring.

Background to restructuring event

Industry and company specific factors were the main drivers of the restructuring in the Dutch insurer. The insurance market in the Netherlands had been under pressure for some time due to a variety of reasons (for example, lack of transparency about costs and returns, wage policies, public call for banking solutions). The Dutch insurer was not able to adjust its cost structure quickly enough in the face of changing market conditions. The negative operating profit in 2011 combined with high volatility in operating results pushed the shareholder to demand from the Dutch company management and HR to develop a new market and organisational strategy. Such a strategy was intended to generate less volatility in operating results and underpin a future-proof business model. The main goal of the restructuring effort was then to save costs.

Although digitalisation was not a main driver for the restructuring, it was used to cut costs. New IT systems were introduced to deliver new products and services. The digitisation of processes also impacted on the internal workflow and made it possible to reduce the number of administrative positions.

Restructuring process

The company initially considered alternatives to the layoffs and imposed a recruitment freeze. Temporary contracts were not extended and voluntary exits were also incentivised. In the end, however, layoffs were inevitable. Between 2012 and 2014, the Dutch insurer laid off 70 employees.

The Dutch company learned from omissions that occurred in the planning and implementation of the first round of restructuring which resulted in the dismissal of 20 employees in 2012. More time and resources were then devoted to prepare the second round of restructuring in 2014, affecting another 50 employees. The second round of restructuring was deemed necessary by the management to make the company profitable again. In both rounds, the role of the trade union was limited to the development of the social plan while the works council had an active involvement throughout the process – particularly in the second round of restructuring - and did not limit itself to an advisory role in the consultation phase.

Also, the relationship between the management and the works council changed over the two rounds of restructuring. Both management and works council received negative feedback from employees during the implementation of the first round, mainly because of the procedural approach to the restructuring and lack of clarity about the process. As a result, there were widespread feelings of insecurity amongst employees and rumours which impeded a smooth restructuring process.

In the second round, both management and works council were determined to improve the process and worked closely to this end. Initially, the management discussed with the works council the new restructuring strategy and the lessons learned from the first round of restructuring. In the consultation phase, the works council recommended the monitoring of the implementation of the change process in order to detect problems and put in place corrective actions. This was done by consulting employees in regular meetings as well as collecting their feedback in staff surveys that were carried out from 2015 onwards.

The new restructuring strategy revolved around a more streamlined communication, greater participation of the employees in the change process, supportive actions and preparation to organisational changes through training for both line managers and employees. Meetings were also organised with employees to discuss the implications of the restructuring for the day-to-day work and give them the opportunity to influence, to some extent, the restructuring process.

In the planning phase, the management set out clear procedures for the selection of the dismissals and explained thoroughly and clearly the proportionality rule to be applied. The dismissed were offered higher severance compensation than required by law and provided with counselling support and job search assistance.

In consultation with the works council, the management developed a new long-term organisational strategy delineating the new products, the new division of work, the teams required to execute the work and the competences needed in the future. The company invested significantly in communicating the new company orientation and vision, the implications for the employees, and the details of the implementation of the change process. This allowed employees to see how they would or could fit into the new strategy and what was required from them. The intention of the top management was to portray an open and honest communication, convey the message that the process was in control, limit the spread of rumours and foster acceptance of the process amongst employees.

A communication specialist was appointed to help HR both in the preparation and implementation of a detailed communication plan. As part of the plan, the management sought to communicate what the restructuring entailed in practice in staff meetings hosted by the board of directors and via information on the company website and official announcements. A two-way communication process was also established to ensure that all employees had opportunities to vent their feelings or concerns and provide their opinions. Several company-wide and team specific meetings were organised for just this purpose. An important part of the plan was the communication of the new company values.

Line managers were responsible for translating the new organisational strategy into job positions and competences required for their department. They were trained to act according to the company values, operate 'in concert' and manage the transition effectively. They were also tasked to communicate the most sensitive issues around the restructuring and discuss with individual employees the development of new competences and skills to enhance their career prospects and support their own employability within or outside the company. All employees were encouraged to think about their own future, the skills and competences they wanted to develop and no longer in terms of a lifetime employment in the company. These discussions resulted in individually tailored career development plans with an agreed training budget. This approach to sustainable employability is now part of the company's ongoing HR strategy.

Challenges and constraints of restructuring

A number of omissions occurred in the implementation of the first restructuring round; a lot of procedures of the restructuring process had to be developed and the HR department had to come to grips with restructuring procedures very quickly. As a result, the applied procedures were constantly questioned by employees. This was also the first time the employees experienced a restructuring in the company. This lack of experience within the organisation and not knowing what would happen next negatively affected the openness of communication in this first round. Employees were afraid that if they would speak out or call in sick, they would risk their job. This inexperience and distrust led to defensive behaviours. According to the HR manager, measures to reduce negative effects of restructuring should also fit with the organisational context and maturity with respect to the restructuring processes. For example, during the first restructuring round, the remaining employees requested a confirmation in paper that stated that they were not dismissed. They needed a guarantee in writing.

Measures to support the employees were adjusted several times during the restructuring. For example, the employees' resistance to change was reduced by intensifying the communication efforts. In the second restructuring round, most employees had a better understanding of the restructuring procedures and the consequences, and a written confirmation as a guarantee of continued employment in the company was no longer requested by the remaining employees.

An additional barrier to a smooth restructuring in the Dutch company concerned the expectations and beliefs of the employees. For example, the older employees were initially reluctant to engage in discussions with line managers on training measures to enhance their sustainable employability. These employees experienced the restructuring as particularly stressful. This was because they had a mindset or expectation of a lifetime job in the company and therefore did not see the measures as very useful or relevant for them. By the end of the restructuring, the initially more reluctant employees had changed their attitude and perceived the sustainable employability programme as valuable to them and, by the end of the restructuring, more than 70% of the employees (including the older ones) had conducted personal discussions with their line manager on their employability plan and requested funding for training to strengthen their labour market position.

Employees' perceptions and their openness to change were also influenced by the management style of those responsible for the execution of the restructuring. Line managers and supervisors differed to some extent in the way they executed the restructuring, reorganised the team and designed the new functions. There were also differences in the extent of social support they offered and the way the restructuring process was communicated to employees. These differences may be partly responsible for some resistance to change and, in the initial phase of the restructuring, impacted negatively on employees' perception of job security and trust in management.

Outcomes of restructuring for the remaining employees

Based on the company interviews, after the second round of restructuring the work atmosphere was more positive and there was less turmoil and job insecurity amongst employees than after the first round of restructuring.

Scores on trust in management in the staff survey just after the restructuring were considered as norm scores (that the company had set for itself). Scores on social support were however below norm scores in 2015 but increased later in 2017 and reached norm scores. Also scores on organisational commitment and faith in the future of the company were initially lower than norm scores but increased over time.

The employees were however critical of the extent to which the management followed up on the results from the survey and rated this as only just acceptable. These concerns were also echoed in the company interviews; although the survey results were routinely shared with the personnel, they were not followed up systematically by the management, thus missing the opportunity to establish an effective learning loop.

Company data also indicate that the turnover rate did not change significantly during and after the restructuring. Changes were however recorded in relation to the sickness absence rate, which dropped from 3.5% before the restructuring to 2.5% during the restructuring and increased again to 3.5% by the end of the process. According to the management, this drop was mainly due to reluctance of employees to report themselves ill for fear of losing their job.

Authors

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Information sources

Interviews

Staff manager HR & Communication.

Member of the Works Council; Sales manager Desk account management.

Business manager Operations & IT.

Company documents

The company's annual report.

The company's social agreement.

The company's advice request 2012.

Revision log summary