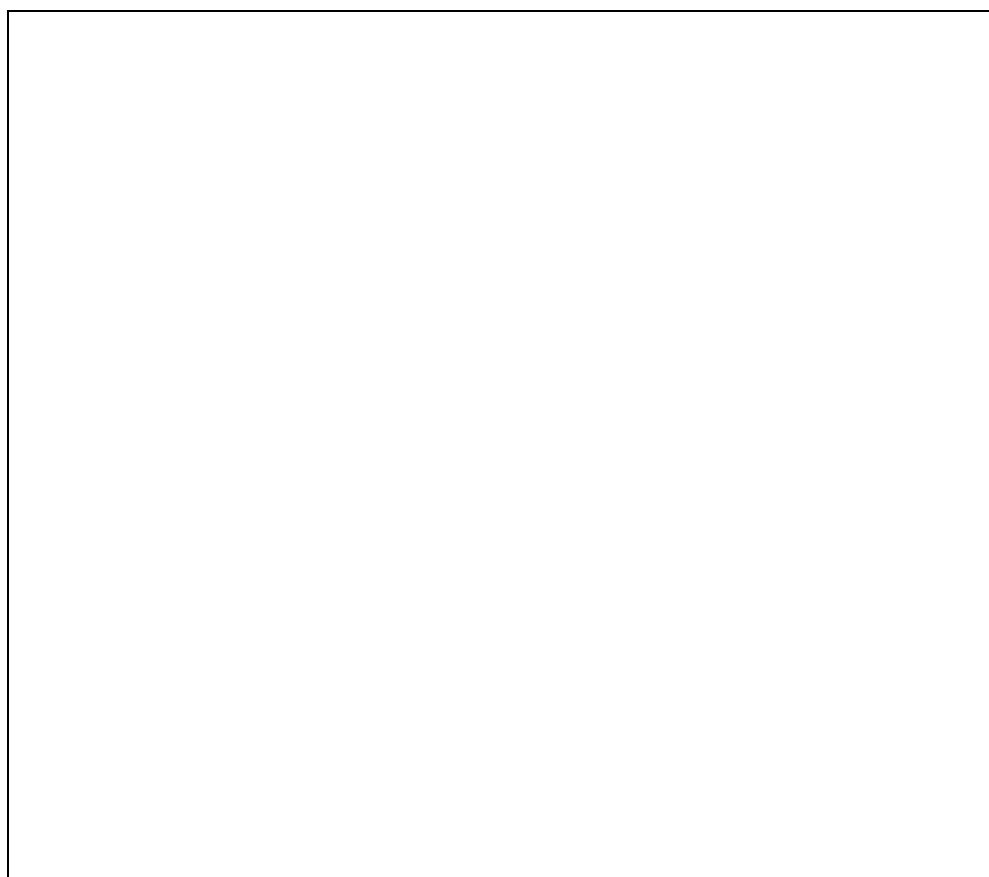


Impact of the recession on age management policies

Case study: Latvian Railway Group, Latvia



Organisational background

Established in 1919, state joint stock company (SJSC) Latvian Railway Group (VAS Koncerns Latvijas dzelzceļš) currently consists of the holding company, State Joint Stock Company Latvian Railway (VAS Latvijas dzelzceļš), and five subsidiary companies: JSC¹ LatRailNet (which allocates rail infrastructure capacity and determines rail infrastructure charges), LDz Cargo Ltd (a freight operator), LDz infrastruktūra Ltd (infrastructure construction and maintenance company), LDz ritošā sastāva serviss Ltd (a rolling stock repairs and maintenance company) and LDz Apsardze Ltd (a security company). LDz Cargo has established its own subsidiary company, LDz Cargo loģistika Ltd, which is indirectly subordinated to Latvian Railway.

Latvian Railway Group provides passenger and freight shipment services within Latvia and also to an international market. It undertakes railway rolling stock repair services and manages railway infrastructure. As such, it is part of the NACE H.49 land transport sector. Latvian Railway Group is a state joint stock company, which means that the state has delegated the administration of certain state functions to it, for example management of railway infrastructure.

Latvian Railway Group is one of the largest employers in Latvia. At the time of writing (April 2011), it has 11,500 employees, of which 63% are male. The vast majority (96%) of Latvian Railway Group's employees work full time and 85% are on permanent contracts. Working hours and type of contract do not vary much between employees in different age groups. The average age of Latvian Railway Group's employees is 47 and it is slowly increasing (according to an interview with the HR director). A relatively large proportion – one-fifth (20.6%) – of the workforce at the Latvian Railway Group is aged 51 to 65, but only 0.4% are older than 65. Employees tend to stay with the Latvian Railway Group for a long time, with the average length of tenure being approximately 17 years (but this average is slowly decreasing). According to its HR director, Latvian Railway Group highly values its older employees, as they are experienced, know their work very well and are highly committed.

In Latvian Railway Group, the HR policies and practices are developed, implemented and monitored by the HR directorate. While each of the companies belonging to Latvian Railway Group has its own HR practices and policies, the HR directorate is responsible for a general HR strategy and policy. The HR directorate's work is strongly influenced by a well-established social dialogue between the various employers across Latvia's transport industry (including the Latvian Railway and Transport Industry Trade Union, LDzSA) (interview with HR director and trade union). LDzSA is the largest and strongest trade union in Latvia with approximately 16,000 members working in the transport industry. Overall, 80% of Latvian Railway Group's employees are members of this union. The main focus of the trade union activities is on increasing wages and other benefits as well as campaigning for employer pension funds and improvements in working conditions (interview with trade union).

Policies and practices related to age management

As is the case in many other organisations operating in the transport industry in Latvia, Latvian Railway Group's human resources (HR) strategy, policies and activities are built on the General Agreement (Ģenerālvienošānās) and collective agreements (kolektīvie līgumi). The General Agreement (LDzSA, 2006), between the Latvian Railway and Transport Industry Trade Union (LDzSA) and the Organisation of Transport Industry Employers (LDzDDO), is an industry-wide policy document that provides a framework for the cooperation between LDzSA and LDzDDO. It was signed in 2006 and provides the baseline for the HR management strategies in companies operating in the transport industry (interview with trade union and HR director).

¹ JSC= joint stock company.

Collective agreements build on the General Agreement and are legally binding contracts between each establishment in the industry section of LDzDDO and LDzSA. The collective agreements determine pay and bonus systems, additional social security guaranties and other HR activities within the Latvian Railway Group. Collective agreements in the transport industry, especially the one applicable to the Latvian Railway Group, are thought to be the best in Latvia in terms of the benefits and protection they offer to employees (Latvian Railway Group, 2009) (interview with trade union). The representatives of Latvian Railway Group and LDzSA form a regular working group. The main aim of this working group is to revise and maintain the collective agreement and ensure that it is implemented in HR policies and practices. Collective agreements also include a clause stating that if an employee transfers from one company to another company within the Latvian Railway Group, he or she retains the social guarantees they had in their previous workplace and their length of tenure is calculated taking into account the total number of years they have worked in the Latvian Railway Group (interview with trade union). This clearly provides some protection to older workers who have longer tenure than others.

The aim of the General Agreement and collective agreements is to ensure that all employees, irrespective of their age or other demographic characteristics, have equal access to the benefits provided by these agreements. However, collective agreements offer a particular protection for those older employees who are coming close to retirement age. According to the collective agreement in Latvian Railway Group, if the employer cannot redeploy an employee who has less than five years left until the state pension age and if this employee cannot find another job, then the employer has to provide a financial support to this employee until he or she reaches the state pension age. The extent of this financial support depends on the employee's length of tenure in Latvian Railway Group. As it is usually more beneficial to the employer to find work for an employee than to pay compensation, Latvian Railway Group tends to avoid making pre-retirement-age employees redundant (interview with trade unions).

Within the framework of the General Agreement and collective agreements, Latvian Railway Group has introduced several initiatives that apply to all employees but which have specific relevance or benefit for older workers.

Older employees in Latvian Railway Group are the most likely beneficiaries from the pension contributions that Latvian Railway Group makes to a company's pension fund on behalf of its railway workers.² Latvian Railway Group's pension fund is an employer's pension scheme (i.e. paid by the employer). This scheme is available to every employee who, according to the Railway Law, can be classified as a railway worker and has been working in any railway-related profession for at least 15 years. After an employee qualifies for this pension scheme, Latvian Railway Group makes regular contributions to this fund on behalf of this employee. If an employee reaches the state pension age while working in Latvian Railway Group, the employer pays out the accumulated funds which provide the employees with a company's pension in addition to the state pension. However, if an employee decides to leave the Latvian Railway Group before reaching the state pension age, all accumulated funds remain with the employer. Thus, this employer's pension scheme provides an additional incentive for middle-aged and older employees to continue to work for Latvian Railway Group. Not surprisingly, therefore, the turnover rate is low, especially among older employees (interview with HR director).

Older employees are also more likely to participate in the private health and life insurance scheme that is available to all Latvian Railway Group employees (interview with HR director). Employees themselves decide whether or not to join it and what level of insurance coverage they need. Both the participating employee and the employer make a contribution to the insurance scheme, but the employer finances the largest part. Trade union members who join this insurance scheme have additional insurance options not available to non-members (interview with trade union). This health and life insurance scheme is unique in Latvia and

² This is level three in the pension system discussed in the national report.

available only to transport sector workers who work in organisations that have collective agreements with LDzSA (interview with trade union).

Older employees are also more likely than younger ones to benefit from an enhanced annual leave scheme. This enables employees to qualify for additional paid holidays provided by the collective agreement. According to the collective agreement, for each five years of uninterrupted service in Latvian Railway Group, an employee receives one fully paid day per year in addition to the statutory entitlement to holidays. As the retention is greater among older employees than younger ones, older individuals are more likely benefit from this scheme.

Latvian Railway Group also acknowledges the contribution that their more experienced employees make to the success of the company. Every year it presents awards to employees, including 'long work tenure' medals, diplomas and special presents for those who have worked for many years in the Latvian Railway Group.

In 2008, to encourage longer tenure in the company, Latvian Railway Group introduced a career management scheme. The main aim of this scheme is to ensure that employees know what qualifications, experience and length of tenure they have to achieve to move to the next step in their career ladder. This scheme was introduced in order to reduce the turnover among younger employees.

Changes in age management policies and practice post-2008

Unlike many other companies in Latvia, the economic recession had little effect on the performance of the Group. In general, Latvian Railway Group ended each of the post-2008 years with a healthy profit. Although the organisation experienced a decline in some parts of its business (for example, the number of railway passengers declined from 25.5 million in 2008 to 21.3 million in 2009), 2008 was still the year of the best performance in freight business (the most profitable part of LDz Group's business) in the organisation's history (Latvian Railway Group, 2009). As a result of this performance, Latvian Railway Group became a leader in cargo transport in the Baltic region and one of the most efficient cargo transporters in Europe. The recession had a slightly more negative effect in 2009, when the amount of cargo decreased to 53.7 million tonnes (4.2% less than in 2008). However, this decrease was much lower than in other European countries (10%–37%) (Latvian Railway Group, 2010). It also helped that during the recession, Latvian Railway Group received financial support in the form of an investment in railway infrastructure from the EU Cohesion Fund, EU Commission TEN-T programme and the Latvian government.

During the economic recession period, several restructuring efforts took place in the Latvian Railway Group. The restructuring was necessitated by a need to optimise Latvian Railways Group's business operation and to comply with the changes in legislation regulating railway transport business in Europe and Latvia. Since much of the restructuring involved establishing new business units with additional jobs in the context of strong business performance (and because of strong collective agreements), there was no need for collective redundancies or any staff reduction in the Latvian Railway Group. According to the trade union representative, during all restructuring activities, most employees benefited from the collective agreement, which provided them with extra support in the case of restructuring. Pre-retirement-age employees benefited, in particular from the clause that determines that the employer has to support them financially if they are made redundant and cannot find a new job (see section 1). As a result, all restructuring activities in Latvian Railway Group were associated with relatively low employee turnover.

The only restructuring event with a negative effect on employees occurred in October 2008 when a former subsidiary of Latvian Railway Group, JSC Passenger Train, became an independent state-owned company and was no longer a part of the Latvian Railway Group. All employees who were employed in Passenger Train when it was a part of Latvian Railway Group were automatically transferred to the new independent company. As JSC Passenger Train employees continued to have a strong representation in the trade union, all social

benefits that were in their collective agreement with Latvian Railway Group were retained after restructuring (interview with HR director).

Subsequently, however, between 2009 and 2010 JSC Passenger Train experienced significant business difficulties. The state subsidies for JSC Passenger Train services decreased from LVL 32 million in 2009 (about €45 million) to LVL 24 million (€34 million) in 2010. Therefore, in 2010 the company faced a LVL 2 million (about €2.8 million) shortage in subsidies. Because of this shortage as well as a decline in the number of passengers, the company reduced the number and frequency of its train services. As a result, the employees' workload substantially decreased and the company believed that they needed to make 100 employees redundant. To avoid this, the trade union negotiated a deal to reduce the number of weekly working hours of JSC Passenger Train employees from 40 hours to 30 hours a week. The reduction in the number of working hours led to lower income for employees. However, employees remained employed, which is particularly important for railway employees as alternative employment is not always readily available (Stokenberga, 2010). The employees who remained employed by Latvian Railway Group after restructuring did not experience a negative decline in their working conditions (interview with HR director).

Another change that could have had a potentially negative effect on employees who were moved to JSC Passenger Train was the introduction in 2010 of the Law on Remuneration of Officials and Employees of State and Self-government Authorities (the Law on Remuneration). This law substantially limited the social guarantees and benefits employees working in public sector companies may receive in addition to those guaranteed by the Labour Law. The Law of Remuneration was ambiguous and partially contradicted other laws that regulate employment relationships in Latvia. A few public companies decided that all social guarantees and benefits included in the collective agreement that do not correspond to the regulations in the Law on Remuneration are not legally binding. Some companies, including Passenger Train, are considering changing collective agreements unilaterally. Such changes would mean a substantial reduction of social guarantees and benefits that employees receive based on their collective agreements. However, trade unions disagree with such an interpretation and argue that such a law and the interpretation of it threatens the freedom to make collective agreements in the public sector and that such unilateral changes in collective agreements are not acceptable. As a result of this, trade unions have actively approached government with suggested changes in the Law of Remuneration and are in a dispute with JSC Passenger Train (Ministry of Welfare, 2010 and interview with trade union representative). Employees who continued to work in the Latvian Railway Group were not affected because the Latvian Railway Group was one of a small number of public sector companies that were exempted from the Law on Remuneration (Ministry of Welfare, 2010 and interview with trade union representative).

Another restructuring process took place in March 2009 when the functions of the JSC Starptautiskie Pasažieru pārvadājumi (which was one of Latvian Railway Group's subsidiaries) ceased trading and its functions were given to another subsidiary, LdzCargo Ltd. Again, this involved no collective redundancies and employees' working conditions remained largely similar to their previous working conditions (interview with HR director) due to the fact that this and other restructuring processes were more motivated by legal reasons than a substantial business need for restructuring (interview with trade union).

Finally, a restructuring event occurred in January 2011 when Ldz Group established a new subsidiary, JSC LatRailNet, which took charge of allocating rail infrastructure capacity and determining rail infrastructure charges. JSC LatRailNet was founded to comply with the changes in the Railway Law of the Republic of Latvia, which required separation of railway infrastructure planning and execution functions. This restructuring was not related to collective redundancies or major job losses, as all employees in jobs related to allocating rail infrastructure capacity and determining rail infrastructure charges were transferred to the new subsidiary. After the transfer they constituted 90% of all employees in the new subsidiary, as additional employees were recruited (interview with HR director). In this case, there was no employee impact because there is an agreement within the Latvian Railway Group that in case

of internal transfer or restructuring, employees retain their social security and other rights and benefits included in their collective agreement. Therefore, there were no major changes in the number of employees and HR policies and practices. In accordance with the Labour Law, the collective agreement that covered all employees who previously worked for Latvian Railway Group also automatically applies to all new employees who join this newly established company (or moved to other subsidiaries, as in previous cases) (interview with trade union).

To summarise, despite several restructuring processes that took place during the recession, Latvian Railway Group, not least because of the strong cooperation with trade unions, managed to avoid collective redundancies and maintained HR policies and practices consistent with its collective agreement with the trade union.

Summary

The case of Latvian Railway Group suggests that economic recession and frequent significant restructuring events do not always lead to collective redundancies and worse conditions for existing and new employees or for older employees. Well-developed cooperation between a strong industry-wide trade union and employers, together with a supportive HR strategy, established conditions from which all employees who remained in Latvian Railway Group, including older workers, benefited in times of economic recession. At the same time, this case study shows that business restructuring involving separation of a less successful business unit and establishing it as an independent company may potentially have a negative impact on working conditions for the employees of the new company.

Contact persons

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