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## A Swedish point of view on restructuring

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## 1. Introduction

The Swedish economy has been going through fundamental changes in the last decade. This was partly due to the economic crisis in the early 1990s, resulting in workforce reductions and closures on a scale previously never experienced in the Swedish economy. Restructuring of the Swedish economy was also associated with the process of entering the European Union. Sweden that used to be (and to some extent still is) an economy with a high level of public ownership needed to deregulate product markets and in some industries lift trade barriers, while in other industries trade barriers were strengthened. As a result companies, in particular former state owned companies, were pressured to rationalise production, restructure their operations and adjust their workforce to a situation with higher levels of competition. Changes in production technology, in particular information technology, may also have had an important impact of the structural changes in the Swedish economy. Information technology enabled firms to rationalise production processes, develop new services and change the way products and services were delivered to customers. As a result firms reorganised their operations, set up new business units, merged with previous competitors to elicit economies of scale in the use of new technology. As a result firms were in a need for higher skilled labour to be able to take advantage of these new opportunities. Thus, restructuring of the Swedish economy was characterised by two contradictory forces, both reduction of workers and the need to recruit labour to deal with the new conditions in the market.

In this paper we analyse how firms responded to these pressures. In particular we are focusing on firms efforts to take social responsibility in workforce reduction. We argue

that in order to understand how firms react to these developments it is important to acknowledge the particular conditions provided by the Swedish labour market institutions, the relations between social partners, active labour market policies and the role of the relatively extensive employment protection legislation.

Regarded in this light, the massive workforce reductions and closures in the early 1990s was a “moment of truth” for the Swedish employment protection legislation and the capacity of the Swedish model to cope with the problems it was designed to deal with. We argue that the Swedish experience of workforce reduction during the 1990s illustrates the capacity of the Swedish model to adjust to changing conditions in the economy.

The results of our analysis show that restructuring practices have been developed to cover for larger segments of the labour market and with increasing sensitivity to individual needs and conditions. Furthermore, new actors, both public and private provide innovative solutions to workforce adjustment problems, contributing to an institutionalisation of workforce reduction practices on a larger scale. This does not, however, mean that adjustments have been made without costs and suffering. Unemployment figures have grown to numbers not experienced in Sweden since the beginning of the 20<sup>th</sup> century and labour market institutions have been questioned and reorganised beyond recognition. The explanation for this development, we argue, is the continuous and recurrent dialogue between social partners to take responsibility for the development of the Swedish economy in the long-term. In this development the Swedish employment protection legislation has a double role. On the one hand it may be regarded as causing some of the problems in the labour market that shape employer and labour market policies. On the other hand it provides the conditions for dialogue between the social partners, which remains as one of the most important characteristics of the Swedish model.

## Context and aim of this report

The restructuring of the Swedish economy since the beginning of the 1990s has caused extensive writing and debate among academics and practitioners. The concept restructuring refers to any form of structural adjustment, whether it concerns organisational structures, industry structures or economic/institutional structures. As such it differs from other similar concepts that are more or less limited to organizational levels, e.g. downsizing, transition or organizational change. Neither does it imply a direction, intention or implicit idea of what kind of change is taking place. It provides an opportunity to take a broader perspective of the phenomena. Restructuring is here used as a unifying concept for all types of adaptations that lead to the reduction of the number of workers, or relocation of work, etc. This may include downsizing, workforce reduction, plant closure, outsourcing or offshoring (when plants are closed and jobs are moved to other countries). In most cases restructuring implies some form of transition or change on the individual level, most often a transition to another job, within or external to organizational boundaries. Thus, restructuring may be defined as a structural adjustment related to individual conditions.

Commentators have argued that such adaptations enhance organisational performance and productivity by cutting costs. As a result, organizations adopt restructuring practices to reduce the number of workers, close down or move plants, organizational units or work places. Thereby restructuring often has effects in labour markets and put pressure on social welfare institutions to care for displaced workers, both economically and to support workers to find new jobs. Such measures imply heavy costs for social welfare institutions. The main question is who should pay for these costs: the state, the employer or the individual?

In Sweden there is a long tradition of state involvement in the labour market. Employment protection legislation is relatively extensive, there is a long tradition of active labour market policy and the social security system is relatively well developed. However, there is also a long tradition of collaboration between social partners to share responsibility for restructuring, which has resulted in particular solutions and practices to

care for workers who are victims of restructuring. In particular, the job security foundations, which are agreed upon through collective agreements, have an important role in providing workers with support in the event of restructuring (SOU 2002:59). These foundations are paid for by employers and since 2004 they cover almost all segments in the labour market (Bäckström, 2005).

Research on the consequences of organizational restructuring is extensive and is highly varied in terms of their theoretical perspectives. However, most studies seem to have two features in common, with a few exceptions (Freeman & Cameron, 1993). First, they are primarily oriented towards understanding the effects of restructuring for the individual, either by focusing on the survivors (Isaksson & Johansson, 2001; Spreitzer & Mishra, 2002) or the victims (Kieselbach & Mader, 2002; Pugh, Skarlicki, & Passell, 2003). Second, studies are often concerned with evaluating the effects of single workforce reduction programs (for example Devine, Reay, Stainton & Collins Nakai, 2003; Cascio & Wynn, 2004) or plant closures (Mazerolle & Singh, 2004).

A problem with previous research on restructuring is that it is primarily conducted in the US context, implying that results and restructuring practices may be determined by the institutional and legal context in which restructuring takes place. What is regarded as innovative in one context is not necessarily so in another. This makes cross-country comparisons difficult. Another problem with previous studies is that the researcher examines only a limited part of a more extended and long-term restructuring process, with the associated risk of overestimating the short-term effects, while at the same time underestimating or even disregarding broader effects, such as changing power relations between social partners and impacts on labour market institutions. Experiences from our previous studies (Bergström & Storrie, 2003) indicate that it may be valuable to take a longitudinal perspective when conducting research on restructuring practices on the organizational level. In general workforce reduction is not a single isolated phenomenon. It takes place as a part of a chain of several programs over a long period of time in which actors learn from one program to the other. Whether the focus is on the individual or the organizational level, several studies have emphasized the importance of tak-

ing a longitudinal perspective in studies of workforce reduction (Bennet, Martin, Bies, & Brockner, 1995; Wayman & Werner, 2000). This is also due to the fact that restructuring and downsizing have become a routine activity for many organizations (Bruton, Keels & Shook, 1996). In our view it is in this long-term perspective the development of innovative restructuring practices may be found and understood. Understanding the impact of innovative restructuring practices on institutional levels is also crucial for cross-country comparisons.

This study aims at developing a better understanding of how restructuring take place in practice and the consequences of that in the long term. Hence, the main objectives of this paper is:

- To review existing research regarding individual and organizational consequences of restructuring.
- To identify innovative examples of restructuring practices among firms and actors in the Swedish labour market.
- To identify issues for further research on innovative restructuring practices in the Swedish context.

To bring order to the literature, we will discuss findings by level of analysis beginning with the individual consequences of organizational restructuring. We then move to organizational and finally institutional consequences. With institutional consequences we mean adjustments in the institutional framework of industrial relations, both normative and structural. Doing so highlights two characteristics of the literature on restructuring. First, scholars have conducted more research on the individual level than at higher levels of analysis. Second, those who have studied the consequences for individuals rarely draw implications for organizational structures and the larger context of restructuring. Consequently, theories about the organizational and institutional effects of restructuring are largely ungrounded and untested, even though many commentators suggest that it is at this level that organizational restructuring will have its most important effect.

We find that the evidence of effects of restructuring on organizational levels are contradictory and they are most often not taking into account the impact of national regulation or institutional frameworks, neither industrial traditions and practices. Results are often generalized to account for restructuring in all contexts and results are also generalized to different types of restructuring. Such generalizations are detrimental for the understanding of the Swedish context, where collective agreements between social partners play a central role for the development of restructuring practices.

## **2. Individuals and restructuring**

There is no doubt that maybe the most important consequences of restructuring are on the individual level. This is also the level that has attracted most research. Researchers



most often make a distinction between the effects on those individuals who are “victims” of displacement and the effects on those who remain in the organization – the “survivors”. In this section we primarily discuss research that speaks of the effects on victims. Previous studies may be categorized in five main topics as regards effects on displaced workers. First, if and how displaced workers are transferred to another job after the event of restructuring. Second, the effect of restructuring on the earnings of displaced workers. Third, the health effects of displaced workers. Fourth, the extent to which job loss is voluntary or involuntary. Fifth, the effects of restructuring on feelings of insecurity of displaced workers, changing identity and meaning of work. In this section we will review the results in previous research in each of these topics and discuss how these effects have been considered in restructuring in the Swedish context.

### Job loss and re-employment

One of the most common arguments is that restructuring has negative effects on displaced workers’ chances in the labour market. There are several empirical studies trying to find out whether restructuring affects unemployment and to what extent displaced workers are transferred to another job. The evidence presented by these studies are, however, not clear.

Studies of job loss in the US found, unsurprisingly, that displaced workers experience more non-employment than does the general working population, but the differences are smaller during expansions than during recessions (Farber, 1993) and appear to fade away by four or so years following displacement (Ruhm, 1991). However, the durations of joblessness among displaced workers vary greatly. Many experience no joblessness at all, while a significant number experience very long periods (Swaim and Podgursky, 1991). Much of this variation is related to the worker’s degree of attachment to the old sector and the likelihood that the worker would lose something by moving. Furthermore, displaced workers report considerably longer spells of unemployment than laid-off workers (Kletzer, 1998).

Recent reviews of the US literature on worker displacement (Fallick, 1996; Kletzer, 1998) indicate that displacement and its effect on re-employment has been associated with certain worker characteristics. Displacement has been concentrated in certain industries, namely manufacturing, construction and mining, which traditionally are male dominated. In addition displaced workers tend to be older and from low-skill occupations. Thus, non-employment varies between categories of displaced workers. Most notably, among men, one year of tenure on the old job is associated with between 2% and 5% longer periods of subsequent joblessness (Valletta, 1991; Swaim and Podgrusky, 1991). Presumably, high tenure workers are more likely to limit their search for jobs similar to the ones they lost, and may be less attractive investments for employers offering dissimilar jobs. Longer tenure is associated with a lower likelihood of displacement but a greater difficulty in finding re-employment. Longer tenure is attributed mainly to seniority effects, whilst the latter results from longer tenure adversely affecting industrial mobility due to the industrial specificity of human capital acquired on the job.

In addition, according to a study by Swaim and Podgrusky (1991), union membership increases the duration of joblessness, and workers with higher pre-displacement earnings (holding union status constant) tend to experience more non-employment (Addison & Portugal, 1989). These results are consistent with the popular notion of “displaced worker syndrome”. Less consistent is the finding that the very long spells are not concentrated among older workers (Fallick, 1996).

However, in a comparative study of displaced workers and non-displaced workers in Sweden in 1987 Eliason & Storrie, (2005) found that displaced workers were slightly younger than the non-displaced. The displaced had lower earnings than the non-displaced and had more often short tenure and previous unemployment experiences. They also had a lower level of education, were less likely to have taxable wealth, but were more prone to have received welfare benefits. They also noted that the displaced workers were to a much greater extent employed in the private sector. Perhaps somewhat surprising there were no regional differences between the two groups as regards local unemployment and employment levels. Finally, the displaced workers were em-

ployed at smaller establishments with a lower educated work force and a higher share of employees born outside the Nordic countries.

The institutional context and economic conditions are important for the effects of restructuring for the displaced workers. The economic environment is an important determinant of joblessness following displacement, presumably because it influences the likelihood that the worker can stay put. The effects may also vary with the type of restructuring. Swaim & Podgrusky (1991) found that those displaced by plant closings have one-third fewer weeks of joblessness than those whose establishments continue to operate. One possible explanation for this finding is that workers displaced by plant closings know they will not be recalled to their previous job. Alternatively, however, the pattern could reflect characteristics of workers selected by firms for lay off. More generally, higher state or local unemployment rates increase joblessness subsequent to displacement (Ong & Lawrence, 1993; Kruse, 1988; Swaim & Podgrusky, 1991), although their influence varies with national macroeconomic conditions and the mobility of the worker (Kletcher, 1991; Fallick, 1993). Poor conditions in a worker's former industry, whether nationally or locally, also increase joblessness (Carrington, 1990; Kruse, 1988).

Of course, a displaced worker may also suffer reduced employment rather than non-employment. While noting the great potential for selection bias in (statistics), with only half of displaced workers typically re-employed as of the survey date, Farber (1993) showed that re-employed displaced workers who were displaced from full-time jobs were less likely to work full-time than were non-displaced workers. In a study of displaced workers going through a generous outplacement program provided by a large Swedish firm Edström & Aronescu (2004) found that displaced workers had to a large extent been able to integrate into permanent jobs two years after the event of displacement, but the first job was often temporary. These results suggest that re-employment of displaced workers may be dependent on how the displaced workers are treated after the event of restructuring and that corporate social responsibility may be important for the transfer to another job.

Thus, there are many possible factors influencing re-employment of displaced workers and it is important to follow-up displaced workers in order to make any conclusions on the effects of restructuring in the labour market. Unemployment is not only a condition for displaced workers. There are also young generations as well as immigrants who are entering the labour market to take into account. However, it seems that the extent to which restructuring leads to unemployment varies between different countries and their respective regulatory framework.

## Earnings

One important consequence of restructuring has to do with earnings. Of course the event of restructuring may imply reduced income for displaced workers in the short term, in particular if job loss is combined with a period of non-employment. The income level of the displaced worker is therefore dependent on the social security system and the level of unemployment benefits. However, what is most important is whether displaced workers generally suffer lower income levels in the long run. There are few studies that are able to give straight answers on this point. Some scholars argue that displaced workers who become re-employed receive lower rates of pay than they would have if they had not been displaced (Fallick, 1996). Fallick summarizes three reasons: loss of human capital specific to the job or sector; loss of a high quality match between the worker and the job; loss of industrial or union wage premiums; and loss of seniority. Others believe that job displacement may provide opportunities to enhance earnings in the long run, since working in a company that suffers profitability problems may reduce the possibility to reap wage increases that may be available in other workplaces or sectors.

However, attempts to measure wage losses face several obstacles (Fallick, 1996). First, data on earnings are only available for workers who have become re-employed following displacement, which may introduce selection bias. Second, data on hourly wage rates are rarely available. Weekly earnings combine hourly wage rates and hours per week, and quarterly earnings add the number of weeks worked to the mix. Third, since

earnings probably would not have remained constant if the worker had not been displaced, a 'control group is usually required to represent the missing counterfactual earnings path.

In a recent longitudinal study of the individual effects of job loss Eliason & Storrie, (2005) show that displaced workers suffers lower income levels than comparable non-displaced workers. This study was concerned with all workplace closures in the Swedish labour market in 1987, which means that all workers in the workplace were displaced. Most interestingly, the authors found what they call an echo effect, which means that the displaced workers were not only suffering lower earnings, but were also worse off in the subsequent recession in the beginning of the 1990s compared to those who were not displaced in the in 1987. Thus, job loss does not only affect earnings, it may also increase the risk of multiple job loss, which in turn may reinforce the negative earnings effect.

Comparisons of earnings may otherwise be misleading, since the wage effect may be dependent on a number of institutional conditions variables and the state of the labour market. For example, the earnings effect on displaced workers may be dependent on what criteria are used when workforce reduction is implemented. For example, if seniority rules are used it may be argued that wage effects are not as drastic, since job displacement primarily affects younger workers, who may not have had as high wages compared to workers with longer tenure in the workplace. In contrast, if other criteria are used, it may be argued that senior workers may be displaced to a greater extent and as a consequence the wage decrease may be more evident.

The earnings effect may also be dependent on the comparable wage level of the restructuring organization. For example, workers in a company operating in an industry with a relatively high wage level may suffer lower wage rates. Whether restructuring leads to decreasing or increasing wage levels may also be dependent on the labour conditions in the displaced worker's industry or local area. Thus, it is likely that there are strong sectoral and regional differences in the earnings effects of displaced workers. This points to the need for further research on a sector by sector basis.

## Health related outcomes

There are several studies shedding light upon the relationship between restructuring and health issues. Most research has focused on the socio-psychological consequences of job loss. Displaced workers, due to the uncertainty and loss of identity related to job loss often experience stress and uncertainty (Angelöv, 1986). The resulting stress, loss of self-esteem and social exclusion that may be caused by job loss is thought to directly impact on physical health. In a recent study of job loss and health-related outcomes in Sweden (Eliason & Storrie, 2005), it was found that displaced workers are more likely to suffer premature death and other health related outcomes. The authors found excess mortality among displaced men, but not women, up to nine years after displacement. The excess mortality was mainly due to suicides and cardiovascular diseases.

Several studies have argued that the recent trend towards lean organizational structures imply increasing stress, burn out and is the main reason for the increasing incidence of sick leave in the Swedish labour market (Docherty, 200X). According to this view, organizations do not provide adequate support to workers and restructuring means that workers need to work harder and therefore suffer from psychological stress. Since displaced workers, in many cases, do not have access to insurance systems and the like, there is also a risk that they miss opportunities of corporate health care programs, social security and retirement income.

Furthermore, restructuring seems to have important consequences for the *quality of life* as it influences private issues, such as household economic situation, divorce rates, gender relations and other family related issues. Eliason (2005), for example, found that men's job displacement adversely affected their wives' labour force participation and earnings. Moreover, the study showed that displaced workers seemed to suffer also from long-lasting losses in disposable family income, although the large earnings losses seem to have been replaced to some extent by other means than increased labour supply by the wife. He also found that job loss was likely to change the conditions of marriage,

which could affect marital stability, and increasing the risk of divorce. Thus, restructuring may have important implications for the life situation of the individual worker.

### Passive or active responses

Displaced workers are often described as victims. Indeed, job loss has a negative impact on a victim's psychological and social well-being (DeFrank & Ivancevich, 1986). For example, layoff victims often feel loneliness, pessimism, social isolation, and despair (see Leana & Feldman, 1992, for reviews of this research). However, while job loss is typically viewed as having only negative effects, others have argued that job loss can be framed in such a way to have positive effects for some individuals in certain situations (Latack & Dozier, 1986). For example, some victims may view job loss as an "opportunity" and a chance to change career and life directions.

Pearlin and Schooler (1978) distinguish two types of individual coping strategies: (1) those that attempt to change the environment so as to eliminate the stress (problem focused coping) and (2) those that attempt to decrease the hardship associated with the stressful event (symptom-focused coping). Examples of problem-focused coping in the context of a layoff would include self initiated job search activities, such as following-up on "help wanted" notices, investigating geographical relocation, or getting retraining. Examples of symptom-focused coping have been said to range from asking friends and relatives for financial assistance to joining social support or community groups.

The research of Leana and Feldman (1990) provides empirical evidence to support the contention that while individuals are likely to engage in some combination of strategies, problem focused strategies are more likely than symptom focused to lead to satisfactory re-employment. Research has found that individuals who engage in problem-focused coping experience less stress than those who engage in symptom-focused coping. This is not to suggest that symptom focused strategies are not useful. Carver, Scheier and Weintraub (1989) have suggested that symptom focused strategies can help individuals vent emotions which might otherwise exacerbate discomfort. At the same time such an exercise may take energy and attention away from ultimately more productive problem-

focused coping activities. Thus, displaced workers may cope with layoff differently, which may have implications on how organizations and governments design assistance programs.

In a longitudinal study of how displaced workers cope with layoff, Bennet, et al (1995) found that the individuals perception of the fairness of layoff procedures and adequacy of government assistance programs were negatively related with problem-focused strategies used by layoff victims, and there was no relationship with corporate assistance programs and the choice of coping strategy. The results of the study suggest that being fair to victims may also be harmful to them. Specifically, by being fair the organization may reduce victims' willingness to seek speedy re-employment. Perhaps "the very unfairness of the situation forces layoff victims to "take the initiative" and turn the job loss into an opportunity. As Bennet, et al (1995) concludes, being fair may be a "double-edged sword" in that while fairness may influence survivors to respond more positively to the layoff victims, it may paradoxically lead victims to react more negatively. In addition, self-blame for the job loss was positively related to a symptom-focused strategy.

Job displacement (breake of psychological contract) may also have effects on how individuals respond to being laid off and therefore also more long-term effects on individuals attitudes to work and employment when he or she is being re-employed. In a study on lay off victims by Pugh, et al (2003) it was found that the psychological contract violation that arises in the context of a layoff can predict layoff victims' attitudes beyond the organization in which the layoff occurred. The results showed that employees' perception of the psychological contract violation resulting from the layoff was (a) negatively related to their trust in their new employer and (b) positively related to their cynicism at their new place of employment. These results suggest, according to the authors, that the higher the negative emotional experience of layoff, the less that laid-off employees will trust and the more that they will be cynical of the intentions or the behaviour of their new organization once they are re-employed. The study also provides insight into the psychological process involved in the development of job attitudes of a layoff victim



once he or she is re-hired. When an employee experiences the negative emotions that comprise feelings of violation, those negative emotions can remain to some degree when starting a new job, in the form of worry that another violation could re-occur.

Several studies have tried to measure the extent to which workers have left their job voluntarily or if they were more or less forced to find another job. Studies of restructuring most often show that those who have a favourable position in the labour market leave early or find a job immediately. This relates to their skill level and the relative demand for their labour in the labour market. It may also be related to whether their skills are firm specific or more generally applicable to other workplaces or industries.

Edström & Aronescu, (2004) found in an empirical study of voluntary displaced workers in Sweden that the voluntariness of work displacement had an important impact on the attitude towards their new job and the employer. The results showed that voluntary displaced workers used the relatively generous transition periods as a way to take a break in their working life, engage in family- and private aspects of life and that their choice of leaving their employment was related to an ambition to better combine the two perspectives of life. Job transition made it possible to balance the relationship between the different life spheres. Even if economic support was important to facilitate job transition it was regarded as an opportunity to find a new balance in their life situation. On the other hand, it may be questioned if the choice of leaving their employment was truly voluntary. To some extent they did not have a choice since it was clear that their workplace was to be closed in the future anyhow. Furthermore, several of the voluntarily displaced workers still valued traditional security factors such as income and employment security. Thus, the voluntariness or involuntariness of work displacement may be an important factor for how employees understand and make sense of restructuring on the individual level.

Some authors suggest that employees should be stimulated to regularly assess their skills, interests, values so that they can figure out the type of job for which they are best suited and eventually move on to another job when conditions are right for them. Waterman, Waterman and Collard, (1994) call this a career resilient workforce. By career

resilient workforce they mean a group of employees who not only are dedicated to the idea of continuous learning but also stand ready to reinvent themselves to keep pace with change; who take responsibility for their own career management; and, who are committed to the company's success. For each individual, this means staying knowledgeable about market trends and understanding skills and behaviours the company will need down the road. It means having the willingness and ability to respond quickly to changing business needs. And it means moving on when a win-win relationship is no longer possible.

Examples of such programs intended to support workers own assessment of their skills, competencies and opportunities in the labour market are widespread in the Swedish labour market. It is regarded as a way to be proactive in relation to restructuring and is primarily a means of supporting individuals' voluntary choice to leave the organization (Bergström, 2001). Such programs are also a way for organizations to reduce the number workers without going through dismissals. By stimulating voluntary dismissals among workers employers avoid the seniority rules required by labour law. Most often such programs are made possible by offering workers who leave voluntarily relatively generous outplacement programs and extended transition periods. Such programs are established through collective agreements.

The most recent innovation in this field is to train managers in supporting their subordinates' career decisions and eventually leave the organization voluntarily. However, the long-term effects of such programs are not well known. While it is argued that workers who leave voluntarily are better prepared when entering the labour market and that those who choose to stay are more committed to work, the extent to which these predictions actually materialize has not been studied. It may be argued that such practices not only change the conditions for workers re-employment, it may also imply a shift in the distribution of responsibility between employers and employees and changing attitude to work in the long-term (Bergström, 2001).

## Summary

Research on the effects of restructuring on the individual level primarily suggests that restructuring leads to lower income levels, health problems, feelings of stress and uncertainty for individuals and periods of unemployment. Most critically, restructuring seems to have long-term effects on the individual level. Whether transitions initiated by restructuring leads to unemployment or whether the unemployed are those who have not yet had a first job, is uncertain. There is little knowledge about these the long-term changes. It may be the case that those who have had a job and are victims to restructuring have greater chances to get a new job than for example younger generations who are entering the labour market. This may be due to labour market activities and employers efforts to support job transitions, implying that those who had a job are protected, while younger generations or immigrants never enter the labour market and suffer long-term unemployment. Thus, changing restructuring practices may be concerned with the composition of the victims of restructuring, both in terms of additional occupational groups and demographic/ethnic groups. Evidence suggests that individuals with higher education are increasingly victims of restructuring. Similarly, there is a difference between men and women, ethnic groups and age groups. Furthermore, restructuring has been more common in some industries than in others.

Most researchers who are interested in how restructuring has effects on the individual level have focused on plant/workplace closures, which represent a change in the context of restructuring not the content. This may be due to that it is easier to study the effects when it concerns a group of individuals in a relatively controlled event and that restructuring has been regarded as closures rather than workforce reduction. The more complex and geographically distributed practices of workforce reduction, when a firm cuts "slices" of the workforce in several locations at the same time, are more difficult to study and the results are therefore more difficult to assess. The individual effects of workforce reduction may differ from that of plant or workplace closure. It may be argued that chances to get a new job is higher when practicing workforce reduction, since job losses are spread to several locations and not concentrated to one location. On the

other hand, empirical evidence suggests the opposite. Swaim & Podgrusky, (1991) argue that the transition period to a new job may be longer for displaced workers from workforce reductions, since they tend to consider chances of being re-employed, rather than going directly to find a new job.

Results of studies of the individual consequences of restructuring most often call for the need for pro-active measures either from the state or the employer to stimulate workers to find a new job. The calls for pro-active measures may be understood as an interest in transferring responsibility for restructuring to the individual worker, rather than on empirical evidence of their effects in the labour market. Available evidence indicates that employers regard pro-active measures as a way to restrictions in employment protection legislation and that employees see proactive measures as a take charge of their working life and career development. Although restructuring is becoming more common, job security and long-term employment is still the most desired and most common form of employment relationship. This is not to say, however, that the restructuring practices have no effect on individuals' experience and understanding of work. Employers may design work tasks and restructuring programs in order to support individuals' transition to a new job, stimulate employability and to prepare for future job transitions, but the long-term effects of such programs are uncertain.

### **3. Organizations and Restructuring**

Given the widespread belief that restructuring will somehow provide better performance, profitability and adaptation to changes in organizational environments, research on the topic is surprisingly scarce. There are examples of studies exploring both positive and negative effects on the organization, with a slight dominance towards the former. Most of these arguments have been put forward by "gurus", who claim that restructuring is to the benefit of organizations and is a natural response to changes in the organizational environment. Despite a few exceptions, there are few studies investigating whether organizations "really" are more productive, cost effective or competitive after

restructuring or downsizing has been completed. The main idea of this literature can be reduced to three broad claims. Restructuring: (1) increases firm profitability and cost effectiveness; (2) has negative effects on survivor trust and commitment; (3) is becoming more common and is more or less a continuous activity for most organizations rather than a single event. In this section we address these three claims, some of the evidence available to support them and examples of how innovative restructuring practices among Swedish firms. The discussion restructuring as a continuous activity leads to a discussion of more general consequences in labour market institutions, which will be discussed in the next section.

### The promises of restructuring

Restructuring is often said to have considerable positive effects on organizational performance and profitability. Restructuring is often regarded as an opportunity to reduce operating costs as a way to increase earnings and stock prices (Cascio, 2002). Firms undertake downsizing with the expectation that they will experience financial and organizational benefits (Bruton, et al. 1996; Cascio, 1993; Freeman, 1994) and that organizational health will be restored to the firm (Freeman, 1994). Often, the goal of downsizing is to enhance efficiency and productivity within a firm. Another economic benefit results from firms being able to increase value for their shareholders (Cascio, 1993). Beneficial consequences in terms of cost cutting considerations are also among the expected outcomes of firms that downsized (Cameron, et al, 1991; Cascio, et al, 1997). According to Cascio (1993) executives are able to better predict future costs than future revenues; hence, lowering costs by decreasing the number of employees is regarded as a good way to heighten earnings and, by implication, the price of the firm's stock (Mishra et al, 1998). According to Cascio (1993) expected economic benefits of downsizing include lower expense ratios, increased return on investment, higher profits and stock prices. In a like manner, organizational benefits that firms seek as a result of downsizing are lower overhead, smoother communications, increased entrepreneurship, and heightened productivity (de Vries & Balazs, 1997; Cascio, 1993). Finally, downsizing also helps

firms to remain competitive, especially in an ever increasingly global environment. Firms that downsize should be able to lower their labour costs and, as a result, to control product prices to improve competitiveness.

However, several studies suggest that the anticipated economic benefits of restructuring fail to materialize. In a longitudinal study of US firms, Cascio (2002) found no significant, consistent evidence that employment downsizing led to improved financial performance, as measured by return on assets or industry-adjusted return on assets. Downsizing strategies, either employment downsizing or asset downsizing, did not yield long-term payoffs that were significantly larger than those generated by stable employers – those companies in which the complement of employees did not fluctuate by more than  $\pm 5$  percent.

The relationship between workforce reduction and financial performance is unclear. Bruton, Keels and Shook (1996) conducted an in depth analysis of 100 Fortune 500 companies that had reduced workforces at least three percent during the period 1985-1987. Performance was measured using ROA in 1991, with size of the firm, its financial health prior to downsizing, and industry serving as control variables. Both company size and industry were shown to be nonsignificant variables, although the authors acknowledged a possible range restriction problem, given a sample of exclusively Fortune 500 companies. The researchers concluded that workforce reduction produce benefits regardless of the company's financial health prior to the event.

Wayhan & Werner (2000) using a doubly (multivariate) repeated measures design to specify the amount, direction and stability of the empirical relationship between workforce reductions and financial performance, found that firms that reduced their workforce had a legitimate reason to feel pressure from stockholders and financial analysts because they significantly under-performed companies who did not have workforce reductions for the two-year period prior to the event period. The study also found a positive longitudinal relationship between workforce reductions and financial performance. However, they remark that the results should be tempered by the fact that the study

found that this relationship was not uniform across time or consistent across financial performance measures.

In a survey carried out by Wyatt Associates in which 1,005 firms that had downsized between 1986 and 1991 were examined, the results indicated 46 percent of the firms had reduced expenses, 32 percent had increased profits, 22 percent had experienced gains in productivity, and 17 percent had reduced bureaucracy (Cameron, 1994; Cascio, 1993). In other survey results from the Society for Human Resource Management, over 50 percent of the 1,468 firms that had downsized reported that productivity had declined as a result of downsizing (Cameron, 1994; Cascio, 1993). Drops in productivity were also acknowledged by Mabert and Schmenner (1997); their study enumerates a number of other costs, most of which are hard-to-quantify, including costs of quality which are a result of increased rework, scrap, and inspection, overtime costs as fewer employees try to handle the same amount of work as before, and forgone new business opportunities since the company does not have the resources to take on any more work.

Mirvis (1997) cites that over one third of the downsizing companies that were surveyed reported an unexpected increase in temporary workers and consultants, and the need for employees to put in overtime and to be retrained. Similarly, de Vries and Balasz (1997) claim that when long-term employees were cut, organizations experienced loss of "institutional memory" and that when head office employees who had had a more long term strategic mindset were dismissed, often "new" executives adopted a short-term approach to decision making. This resulted in an overall sense of alienation for the firm and gave rise to serious and negative consequences for the research and development department, capital investments, training and development, and overall performance of these organizations.

De Meuse et al (1994) reported the findings of their study which contrasted the financial performance of the 17 Fortune 100 firms that made public layoff announcements in 1989 with the 35 Fortune 100 companies that made no layoff announcements from 1989 to 1991. They found that the financial performance of firms that downsize continue to lag after downsizing efforts as they expect more layoffs in the future. Bruton et al. (1996)

report that, in general, for two years following downsizing the stock value of firms decreases.

### The downside of restructuring

There are also studies that have documented important negative impacts of restructuring on the organizational level. According to Freeman (1994), many downsizing projects fail because rather than take the opportunity to reorient themselves and engage in a major turnaround, firms focus on internal efficiency. Firms aim to become smaller versions of their previous selves; instead, Freeman argues that they should be questioning their very existence in their present state. In a study conducted by Mirvis (1997), it was found that firms that engaged in downsizing in order to cut costs were more likely to encounter post-downsizing problems than firms that downsized to increase productivity. Similarly, firms that downsize as a defensive reaction to decline are less likely to be successful than those who undertake downsizing activities to increase performance (Bedeian & Armenakis, 1998).

As Appelbaum et al. (1999) argue, while those who lose their jobs may seem the most affected by downsizing, it is more likely that the employees who remain suffer the more negative effects. Survivors often seem to show less loyalty *and commitment* towards the organization after the event of downsizing and may therefore perform work of less quality and lower productivity. In a survey conducted by Right Associates, 70 percent of senior managers who remained in downsized firms reported that morale, trust, and productivity declined after downsizing (Appelbaum, et al. 1999). Mirvis (1997) states that over 60 percent of the employees interviewed found as the main downside of downsizing the lower morale of the survivors. In addition to these negative effects, employees suffer from heightened levels of stress, conflict, role ambiguity, and job dissatisfaction, the inability to monitor, control and support business units effectively, an overall sense of dissatisfaction with supervisors and colleagues, and burnout (Appelbaum, et al. 1987; Cascio, 1993; de Vries & Balazs, 1997; Mone, 1994). As a result, firms lose their stability and experience declines in terms of their levels of coordination and motivation;



in due time, it is the company's performance levels that suffer to the greatest extent (Appelbaum et al, 1987; de Vries & Balazs, 1997).

Furthermore, while restructuring is done in order to reduce costs it may also imply additional costs. Costs of restructuring include costs such as wages for displaced workers, administration, training programs, adjustment of existing personnel, loss of productivity during restructuring. These costs are often overlooked, because they are fixed with respect to the incidence of restructuring, and because some of them are hidden from the event of restructuring. However, these costs may be critical to the cost effectiveness of restructuring.

Moreover, it is often argued that restructuring have negative image effects for the restructuring organization. Continual firing of workers may make it more difficult for the organization to recruit employees in the future. Individuals may be unwilling to work for an organization that has a history of unstable employment. Radical restructuring may also produce bad will for the company and have negative effects on customers, due to the publicity in media often associated to large scale restructuring. In particular when restructuring affects a region where the firm is the dominant employer and/or when the product implies long-term customer relationships, as for example in the automotive industry. Restructuring initiatives may also negatively affect relationships to suppliers. In a study of survivors' attitudes after a downsizing effort Lewin (2003) found that survivors expectations of outcomes of downsizing initiatives had a strong negative impact on respondents' propensity toward trust, commitment, and flexibility in their relationships with suppliers. Additionally, their findings suggest that supplier firms should expect to find it much more difficult to establish and/or maintain partnering relationships with buying firms currently going through downsizing.

Finally, restructuring may influence the firm's long-term competitive position in the market. Studies of restructuring in Sweden suggest that the practice of workforce reduction through seniority rules, as required by law, implies that the firm loses the young workers with the competence needed in the future, while older workers with obsolete skills are left behind. Employers often argue that this effect creates an unbalanced age

structure in the company and threatens the competitive position of the organization in the future, in particular when restructuring is associated with major technological shifts or implementation of a more market oriented organizational structure (Bergström & Storrie, 2003).

It is also argued that strict application of seniority rules may also have the effect that skilled workers may have to be reengaged as consultants, which means that the firm ends up with higher rather than lower labour costs after the incidence of restructuring. In addition, if skilled workers are laid off there is a risk of knowledge leakage to competitors. An additional concern is the potential for intellectual property theft or other information crucial for the organization's competitive advantage. However, there are few empirical studies providing evidence of the loss of competence after restructuring.

In order to avoid the problems associated to workforce reduction through seniority rules, Swedish firms have negotiated with trade unions to avoid the regulation by law (Bergström & Storrie, 2003). Efforts have been made to try to use other criteria for selecting workers to be dismissed. This has created a new practice, where it is left to employees to voluntarily choose to leave the organization on condition that they are offered generous programs and support to find new jobs. However, such programs do not entirely solve the problem of competence loss. There is always a risk that the employer loses employees who are crucial for the operations of the company. However, in most cases employers tend to value the benefits of such solutions against the potential dangers.

In sum, from the organization's point of view the consequences of restructuring are ambiguous. On the one hand, the possible negative effects may be outweighed by the organizations' performance and future competitiveness in the market. On the other hand, the loss of competence and the negative image effects in the labour market may overturn the positive effects of restructuring.

## Survivors and victims

Another feature of the organizational level of analysis is the effect of restructuring on the relationship between survivors and victims. There have been mixed results when comparing displaced workers and survivors along attitudinal lines.

A case study conducted by Mone (1994) on a major Fortune 100 organization that operates internationally reports that employees who have greater self-efficacy and self-esteem are more likely to contribute to increased employee turnover in downsizing firms than in non-downsizing firms. These results were found after a hierarchical regression analysis was performed on the data of 145 returned usable surveys. Often, these high self-efficacy employees are dissatisfied with the fewer benefits, rewards, and opportunities available due to the downsizing that has occurred, feel less committed to the firm, and are thus more likely to seek employment elsewhere (Cascio, 1993; Evans et al. 1996; Mone, 1994). Conversely, Mone (1994) found that employees with low self-efficacy tend to perform at lower levels and have less confidence to look for other employment opportunities. Furthermore, these results suggested that low self-efficacy employees become more committed to the downsizing firm and are less inclined to leave the company. Paradoxically, to restore organizational health, to be able to compete and to survive, downsizing firms most need the competent, successful and confident employees who are more inclined to leave (Mone, 1994).

Restructuring not only has consequences for those who are victims, but also on the survivors. On the one hand permanent workers experience stress and higher workload, since work has to be done by fewer people. On the other hand, there is evidence to suggest that restructuring affects survivor attitudes. According to Cascio (1993), the effects of downsizing are longer-term than most would like to admit. While immediate negative consequences include loss of morale, distrust, and drops in productivity as well as employees becoming self-centered, narrow-minded and risk averse, the literature stresses long-term impacts such as a lack of commitment to one's employer, ultimately resulting in recurring career transactions and greater turnover for firms (Cascio, 1993; de Vries & Balazs, 1997; Mone, 1994).

A growing body of research on restructuring has documented the many types of friction that occur between survivors and victims. There are for example studies suggesting that restructuring can negatively impact the attitudes of survivors. Even though survivors prefer their own positions to those of displaced workers, they may have feelings of guilt for surviving or envy those who leave the organization since they are offered beneficial conditions. This perception may lead them to question the organization's fairness and possibly have expectations of similar benefits at a later stage. Furthermore, the reward inequality often associated with restructuring may also create conflicts between survivors and victims, particularly if the displaced workers are not immediately detached from the workplace. Several studies suggest that the longer the displaced workers stay in the workplace the more problems of conflict between survivors and victims. Thus, restructuring may directly or indirectly, affect the co-worker relationships in the workplace.

To avoid such effects several Swedish firms have been careful to detach the displaced workers from the workplace as soon as possible after dismissal. Reemployment centres have been set up, where displaced workers are provided the support needed to find a new job, job search databases, training, counselling, computers, copy machines and other administrative services. These reemployment centres also provide social support in terms of opportunities to meet other individuals in the same situation.

However, the impact of restructuring on survivors may be dependent on how workforce reduction was organized and whether survivors experience that the employer treats the victims fairly. In a study of aerospace employees who survived an organizational downsizing Spreitzer and Mishra (2002) found that the trustworthiness of management, distributive justice, procedural justice and three dimensions of empowerment facilitated more organizational attachment. Higher levels of attachment were found to facilitate less voluntary turnover in the year following the downsizing.

### **Innovative practices in Swedish firms**

In several Swedish firms a particular workforce reduction practice where employees are offered generous outplacement packages on condition that they leave the organization voluntarily. Such programs may have an impact on survivor reactions to restructuring, both in terms of perceived fairness and in terms of decreased feelings of guilt, since displaced workers have voluntarily chosen to leave the organization. However, there are still no empirical studies that could provide evidence of such effects.

The idea of such programs is that if workers would voluntarily choose to leave their employment it would be possible to avoid the straight jacket of the last in first out principle of the employment protection legislation. Furthermore, the problem of targeting the "right" individuals would be solved, since offers could be designed in such a way that workers in the target population would find it beneficial to accept the offer. Moreover, it was argued that by making dismissal an individual choice, the experience of uncertainty among workers created by the large-scale reduction programs would be minimal. Instead of regarding leaving the organisation as a failure it was suggested that it would be regarded as an opportunity, an advantage or as a challenge.

The first, and maybe most distinctive, program of this kind was set up by the Swedbank. The bank was a result of a merger between two major savings banks in Sweden. Both banks had previous experience of large-scale workforce reduction programs in the early 1990s. In 1992 the banks had 19 000 employees in total. In 1998 they were down to 14 000. Even if pension programs were used, management experienced that they lost too many young and highly educated workers. This was regarded as a problem for the future profitability of the firm.

The reason for the merger was to elicit economies of scale in the production of services, utilise developments of new technology and to be more competitive in relation to the newly developed specialist retail banks. As a result of the merger the bank had overlapping bank offices in many locations in the country and it was argued that the competence and age structure of the workforce did not perfectly fit the conditions for the future. The aim was to create synergy effects amounting to 1.5 billion SEK. In the planning

of the merger it was stated that the new bank needed to reduce the workforce with 3000 employees, while at the same time recruiting 800 new workers with the competence needed in the future. This was regarded as a way to deal with the unbalanced age structure of the firm. However, the problem was how to design a program that made it possible to reduce those workers who were not needed anymore and retain those workers who was needed, from the company perspective. The only solution was to make dismissal an individual choice.

As a result of negotiations with social partners the Swedbank gave an offer to all 14 000 employees to voluntarily leave the bank and the banking sector in July 1997. Thus, not only the seniority principle was avoided, but also the guarantee to be re-employed if the company were hiring again within a year. The employer did not want employees to take jobs at the growing competitors. It was stated clearly that those who leave would get access to a generous program including severance pay for six months, individual counselling, job-search training, medical examination, networking meetings and a "European IT-drivers licence" in order to upgrade the individuals IT-skills. There were also generous opportunities to get bank loans for those who wanted to start a new business. Employees born 1941 or earlier were offered a voluntary early retirement program. The goal was that 1000 employees would accept the offer.

The offer was combined with an extensive information campaign. The aim was that the decision to leave the organisation should be a conscious choice based on relevant and realistic information concerning both the conditions in the future labour market and the future development of the bank. According to the employer, employees should know what it would mean to stay within the bank and what it would mean to leave. "If you are going to stay you need to understand and accept the future mission and vision of the bank", as the program manager expressed it. This meant to accept the new business logic, with customer focus, using new technology and developing new services and products. All this was captured in the slogan: "The new bank!" In order to support this decision-making process, managers were trained in developing a supportive dialogue with their employees.

The result of this extensive information campaign was that 1373 employees chose to leave the organisation. Those who left were put in what was called “the resource bank”, an administrative support unit serving as the employer for workers during the extended dismissal period. In contrast to previous programs, see for example the Vattenfall case above, the Resource bank was not organised as a physical development center. Instead the Swedbank chose to let workers stay at home, largely because workers were spread out in all branches in the country. It would not have been cost effective to set up development centers in all cities affected by the reduction, as the program manager argued. It was also regarded as offensive towards the remaining workers to let the workers leaving the organisation remain in the office during the dismissal period. The outcome of the program was regarded as successful. Only a few of the 1373 workers leaving the organisation was reported going to open unemployment.

However, this new approach did not stand without criticism, both internally and externally. Representatives of the bank estimated that of the 1373 workers leaving the organisation 5 % were employees that they rather wanted to stay. Furthermore, it was argued that, however well informed, the choice to leave the organisation was not always voluntary. In some workplaces it was reported that branch managers gave hints to some workers and not others that they should carefully consider the offer. However, in general the program was highly appreciated among workers and the image of Swedbank as a generous and socially responsible employer was spread in the public domain. As a result several employers tried to imitate this “new” model in their workforce adjustment programs, see for example the work force reduction program of the Swedish national postal service – Posten Futurum – which may be regarded as one of the most successful restructuring programs in Sweden.

The Postal service has reduced their workforce by 4000 people avoiding traditional redundancy procedures, providing generous readjustment programs to individuals and securing entry into new job opportunities with a success rate of 90 %. However, the Postal Service introduced an important addition to the concept in order to better control who was made redundant. According to the Postal service experiences from other com-

panies showed the danger of providing general and too generous programs, since it could contribute to losing the employees that you wanted to retain and the other way around. As a response to this dilemma clear-cut selection criteria for those who were given the offer was set up. The basis was that the participant of the outplacement program was employed at a workplace where redundancy was identified. Furthermore, there were also particular criteria for age and level of qualification of the worker. In particular priority would be given to low skilled and older workers. Thus, the program of the Postal Service differs from that of the Swedbank, since it more clearly determined the target group of the program.

### From campaigns to continuous restructuring

Even if several studies suggest that restructuring is becoming more common and a continuous routine activity for organizations (Bruton, Keels and Shook, 1996; Freeman & Cameron, 1993; Marks & Meuse, 2005), few studies really investigate to what extent this is happening and what it means for the involved parties.

Organizations may find themselves in an endless loop of one restructuring program after the other. Downsizing efforts may imply a changing role of HR, taking a more strategic position within the firm (Sahdev, Vinnicombe and Tyson, 1999). Employees surviving restructuring may lose trust in management and previous restructuring programs may create expectations and behaviours, which may create difficulties to implement additional restructuring programs. For example, our studies of restructuring in Swedish firms show that early retirement schemes create expectations among survivors to be offered the same kind of benefits as their fellow co-workers and already when they are 50 years old they are beginning to adjust their career plans to retire when they are 55.

The major restructuring of the Swedish industry during the 1990s has indeed been a continuous activity among several Swedish firms. It may be argued that the practice of workforce reduction has been institutionalized. First of all some large firms have established permanent support units whose main purpose are to support employees transi-



tion to new or different work tasks, internally or externally. The most developed such organization is run by Telia. There are also such examples at the Swedish Postal Service and at Vattenfall. The reason for this permanence of support units is that restructuring is regarded as a problem that employers have to deal with continuously. At Telia there is a department of 10 experts providing advice concerning workforce adjustment issues when there is a need for specific programs in the organization. These organizations work as the firms' collective memory, collecting all the experience of previous workforce adjustment programs. Some of these support units have developed such level of skills that they can sell their services to other firms as consultants. For smaller firms there were a growing number of outplacement- or temporary work agencies providing these skills as a form of consultancy service.

Second, there is a deeper understanding of the advantages and disadvantages of different approaches to workforce adjustment. There are a number of methods and technologies for supporting individual transition in the labour market. These methods and technologies are designed for particular segments in the labour market or age groups. For example, several organisations (Swedbank and the Swedish Postal Service) have specific programs for older workers. These programs most often include pension programs, combined with part-time work and more free time, reduced workload and internal pools for older workers. Thus, there are several examples of restructuring practices being institutionalised in the Swedish labour market.

## Summary

Given that restructuring is most often initiated as a way to reduce costs and increase profitability, there is limited data on the impact of restructuring on the long-term effects on the organizational level. Nevertheless, three statements seem reasonable: (1) the intended consequences of restructuring may not always be realized, thereby suggesting that restructuring is insufficient to change the performance and/or cost structure of firms. (2) There is some evidence that restructuring causes negative effects on survivors.

(3) Few analysts offer a balanced treatment of the positive and negative implication of restructuring on the organizational level.

As restructuring becomes more continuous, these findings may change. The establishment of permanent support units offers employers the ability to control when and how they restructure the organization. Transition programs designed to support employees to find new jobs may be more successful for both employers and employees than temporary projects and campaigns. There is little evidence, however, that restructuring have made recruitment of employees more difficult. The claim that voluntary dismissals create better conditions for both survivors and victims is open to question. The relation between organizational performance and types of restructuring has yet to be adequately explored. Are some forms of restructuring more cost effective or more likely to enhance profitability than others? In addition, there is little evidence from which to predict how the dynamics associated with restructuring will affect people's work roles. Perhaps the strongest conclusion that can be drawn is that, at present, there is little evidence or understanding of the changes that may be taking place as restructuring becomes more common.

As our case studies have shown it is clear that the practice of restructuring in Sweden has changed since the early 1990s. There are several examples of innovations or new models of workforce adjustment. There are also examples of new actors providing services to employers complementing and sometimes competing with traditional actors. Above all there is a development of targeted methods and technologies to support workers' assessment of their own work situation, to consider alternative careers and training programs. Maybe most importantly, there is a re-establishment of dialogue between social partners. Thus, the Swedish system of restructuring and workforce adjustment is maturing. There is a relatively tight network of public and private actors working together to provide a buffer to employees exposed to redundancy.

The relatively extensive employment protection legislation has a central role in this development. First, in the early 1990s, when workforce reduction was done through large campaigns and according to the seniority principles, it had major impact on the

composition of the workforce in the companies. Workforces were unbalanced in terms of both age and competence. Efforts were made to solve these problems at a later stage. However, the problems remained. In the next phase efforts were made to avoid the strict seniority criteria in statutory law and instead adjust workforces to the particular business needs of firms. Negotiations resulted in generous re-employment programs for workers who were made redundant. Thus, the employment protection legislation did not serve as guiding the procedures in practices, rather as providing a norm of how it could be done and therefore provided incentives for employers to negotiate and offer better conditions for workers. Thus, the employment protection legislation had a double role. It both caused some of the problems of workforce reduction and it provided incentives for social partners to negotiate the particular solutions to the problems.

#### **4. Conclusions and Implications**

A review of both theoretical and empirical studies of restructuring in Sweden reveals much diversity. Studies of restructuring have varied dependent on theoretical approaches, disciplinary background and interests. In one way or the other the focus has varied dependent on what actor or interest the studies serve or represent. Independent of whether it concerns the individual employee, the employer or the labour market in general, restructuring has important consequences. It changes firms' way of organizing work and it may threaten traditional relationships in the work place. Thus, restructuring challenges traditional understanding of organizational membership, loyalty, safety, welfare and social integration.

Several studies have outlined how to manage restructuring processes in a responsible way. These guidelines may be regarded as legitimizing organizational restructuring practices, but the effects of such practices for both the organization and the displaced workers are ambiguous. Several studies are set up to investigate the effects and consequences of restructuring for individuals. There are also studies investigating the effects

of restructuring on the organizational level. In short, restructuring points out important questions regarding relationships in the labour market and the organization of work.

According to the dominant point of view on this topic, socially responsible workforce reduction practices are regarded as the means to which the organization can avoid negative effects of restructuring and downsizing on employees. However, the existing literature seems to have little to say about how responsible workforce reduction practices actually develop over time. Representing these practices in terms of a set of guidelines or checklists of effective downsizing strategies (Cameron, Freeman & Mishra, 1991; Cascio & Wynn, 2004), decision rules (Bruton, Keels & Shook, 1996), management principles (Marks & De Meuse, 2005), key lessons for managers (Cascio, 1993) or mistakes to avoid and suggestions of what to do when restructuring (Cascio, 2002), writers of this field claim that these practices manifest themselves in organizations through well planned and implemented processes that secure morally sound and/or ethical behaviour of employers. Among various drawbacks, such as that of being static and simplistic, this conceptualization is also overly objectivistic. In the final analysis, it treats workforce reduction practices as a simple technology that can be applied in all contexts and as if employers are free from institutional or legal constraints, and thus fails to take into account the conditions that organizations face when defining and negotiating conditions, in shaping their practices locally. What is regarded as socially responsible workforce reduction in one context may not necessarily apply to another.

In general these studies suffer from two main problems. First, they tend to regard socially responsible workforce reduction as a stable characteristic or feature, which may be documented and spread to other actors and adopted successfully. Secondly, while seeking to describe and analyze the effects of workforce reduction practices, be it positive or negative, they tend to reproduce a stigmatized notion of workforce reduction, which closes down dialogue and collaboration rather than opening it up for discussion. False promises and misgivings are as common in this field as in any other area where individual, economic and political interests are at stake. This is not to suggest that workers' fears of being made redundant and employers' drive for better performance should not

be taken seriously, rather that such conflicting discourses should be regarded as a condition for the development of practices in every day life.

### Implications for Future Research

Research on the effects of restructuring is often polarized in promises of more cost effective and productive organizations and destructive consequences on individuals. Researchers often present broad and idealistic claims about how new innovative programs or practices will balance, avoid or mediate the negative consequences on individuals. On the one hand restructuring typically is regarded as a management issue. Employers should take more social responsibility. A common assumption is that restructuring is a single exceptional event that organizations engage in occasionally and return to a normal state of stability. On the other hand, restructuring may be regarded as a continuous activity. Stability is an exception rather than the norm. The second assumption is not very well investigated, i.e. what are the consequences on the organization if restructuring is regarded as a continuous activity rather than a single event? This question opens up for several questions for further research and new theoretical perspectives, methodological approaches and empirical challenges.

The question of the implications of the restructuring on the organizational level has been investigated to a varied extent dependent on its presence in the labour market. At present, research on plant/workplace closures is more developed than research on how workforce reduction programs are influencing organizations and labour market institutions. Early work on plant closure, for instance, predicted a world in which large numbers of firms would move production abroad and put workers into unemployment. Our studies have shown that plant closures are less prevalent than anticipated, possibly because social partners have agreed to allow for other criteria for selecting individuals to dismissals than required by law, on condition that employers provide extensive outplacement programs and transition periods. The development of transition agreements may be regarded as providing employers with a possibility to use workforce reduction

rather than plant closures as a means for restructuring the organization. In several cases employers appear to reduce the number of workers rather close or move plants.

Initial studies of workforce reduction predicted better integrated, more skilled and more flexible organizations composed of productive, highly competent individuals. Later studies suggest, however, that there is room for a more elaborate understanding of how restructuring practices are affecting organizations. As workforce reduction is getting more common the down side of restructuring through voluntary dismissal will probably receive greater attention.

Research on how restructuring affect organizational structures and labour market institutions are still guided by relatively simple and polarized views of (disintegrated, market-based organizations deteriorating in lean and flexible organizations). Nevertheless, there are empirical reasons to believe that these theories/models too will have difficulties dealing with the social and cultural complexity of the work place. For instance, researchers are finding it difficult to predict precisely what, if anything, outplacement agencies are doing to managerial responsibility and, beneath the talk about a future populated by corporate social responsibility, apparently the dynamics of power and control is hidden.

Research in the area of restructuring is highly political. Should research take part in the argumentation whether restructuring is good or bad, legitimizing one or the other position? Instead research may focus on understanding how innovative restructuring practices develop. Taking this path will require not only abandoning a particular style of theorizing, but adopting more grounded methods.

In particular, researchers who are interested in understanding how workforce reduction takes place in practice need to avoid the temptation to evaluate the short-term effects expected by normative theories or models. Furthermore, there are considerable problems getting reliable data on restructuring on the organizational level. The politically sensitive nature of restructuring means that employers have few incentives to engage with researchers and are less willing to give reliable answers on the effects of these practices. Asking employers about the reasons and effects of restructuring would prob-

able give responses related to their legitimate reasons given by normative literature rather than the detailed turns and considerations that drive decision making among managers. Moreover, restructuring is in many cases a long-term process characterised by decision-making behind close doors and negotiations with trade unions, at least in Sweden. This makes it more difficult for researchers to conduct research on how restructuring takes place in practice. It is most often not until restructuring efforts are announced in media that researchers get access to the information about what is going to happen, which means that it is too late to study how decisions were made in the first place. This is not only problematic from a practical point of view, but also from a theoretical and methodological point of view. Instead more effort should be put to understand the local dynamics of how innovative practices of restructuring are developed.

For instance, predictions that employers who take social responsibility will facilitate employees transition to a new job are based on the idea that once a firm takes social responsibility, there is no reason why it cannot go on reducing more and more people in the same way as long as they follow what is regarded as “best practice” or ethically sound principles. But re-employment of displaced workers is usually structured by other considerations as well. The existence of re-employment programs may be necessary for the transfer of workers to another job, but it is hardly a sufficient condition. When the otherwise accurate claim about the importance of employer involvement in restructuring is stated in a language of corporate social responsibility, however, the chain of argument is more difficult to see: if employers take more responsibility in restructuring then, by definition, they can restructure more often and, by extension, more individuals will suffer job displacement. What is most responsible? - to take responsibility when you do it or not to do it at all?

The delusion is that corporate social responsibility does not facilitate worker re-employment so much as it creates expected effects that might be used to legitimate further restructuring efforts. The demand for socially responsible restructuring may create expectations of outcomes, but this doesn't mean that the event of displacement or job loss is less problematic for individuals. Yet, efforts to promote corporate social responsi-

bility as a solution to problems in the labour market begin by equating the presence of a practice with the absence of an effect, thereby legitimating an entire series of ungrounded predictions. There is a false assumption that socially responsible restructuring is the same as reduced effects for the displaced workers. Such logical mistakes may be easily avoided by adopting a more critical stance towards the normative claims of the effects of socially responsible restructuring. In the absence of data that prove otherwise, we assume that one cannot read the social effects of restructuring from its ethical principles.

To say that one cannot read the social implications of restructuring from its ethical principles is not to say that restructuring has no social effects, that its effects cannot be consistent or even that the implications of a restructuring practice do not stem from its design or functioning. As this review has shown, restructuring practices have clearly shaped and will continue to shape the destiny of not only the displaced workers but also those who are survivors. Some of these effects are clearly based on ethical principles; for instance, the need for employers to make sure that workers are treated equally and the employers' continual need to take the needs of individual workers into account. An issue is how researchers should go about predicting, studying and explaining the developments that these practices are likely to generate. Because the effects of restructuring practices on displaced workers are most evident in the long-term, the researcher's best bet is to ground theories of the implications of a practice on an empirical understanding of how the restructuring practices are actually developed and how they facilitate job transition of the displaced workers. Had researchers initially examined how and when organizations develop restructuring practices rather than attempt to evaluate the short term effects from conceptions of what the restructuring practices might generate, it may have been discovered that corporate social restructuring expands rather than substitutes the institutional arrangements provided by the state through labour market policy. Similarly, by studying why organizations take social responsibility and how restructuring practices are developed in the first place, researchers might have concluded that institutional and legal constraints were better predictors of the development of socially re-



sponsible restructuring practices than the expectations presented in most literature. The development of restructuring practices in Sweden during the 1990s is a good example of that.

This argument to study the innovation and local development of restructuring practices, instead of ethical principles and short term effects, could significantly alter and deepen our understanding of how restructuring is affecting labour markets. Studies of innovation might well lead to findings that depart from, if not challenge, the rhetoric of expectations common among (managers, consultants and trade unions) and, thereby, foster a more undistorted image of the range of social changes that restructuring may generate. Rather than attempt to be exhaustive we shall offer five illustrations of what we have in mind.

#### **Adopting a longitudinal perspective**

First, although restructuring practices appear to be changing, the conditions that produce the effects on individuals are independent of the practice of restructuring. We know that displaced workers suffer from restructuring and that many do that independent of how restructuring was made. What we do not know is the long term effects on workers, when workers use particular programs strategically, what expectations restructuring practices produce for survivors, what measures they take and how the practices have altered people's understanding of what it means to work and how it may be changing their career strategies in the long term. Are they better prepared? Or do they expect employers to provide generous programs and benefits in the future? By investigating these and other questions about restructuring, we can begin to develop a theory of restructuring that situates restructuring in the context of people's lives. We know that restructuring brings about a number of negative effects for workers, but as long as these are occasional or exceptional they are more or less acceptable. If, as many suggest, restructuring is becoming a continuous condition for modern organisations, then it seems reasonable to say that the transformation might also involve a shift in our understanding of the employment relationship. What does continuous restructuring mean for indi-

vidual workers' career options and what can we expect from employers to support or facilitate workers career expectations?

#### **Industry practices**

Second, the domination of the discourse of globalization and competitiveness has obscured the fact that all restructuring does not take place in the private sector. Thus, what may be true for one organization may not be true for others. Our studies in Sweden suggest that restructuring practices display great industry variation, particularly dominated by organizations in industries that have undergone transitions due to deregulation of state monopolies. It is, therefore, possible that the development of restructuring practices has less to do with adaptation to external competitive forces than researchers currently recognize and, it is possible that the most innovative practices of restructuring are developed in these contexts. Deregulation is reconfiguring the organizations in the power industry, postal services, telecommunications industry and many other industries with a strong relationship to the state. Yet, as we have noted, studies of how restructuring practices in these industries are transferred to other industries, setting a norm for what corporate social responsibility means, are scarce. Research on how members of these organizations understand their situation, manage restructuring and imitate each other, would yield insights into the dynamics of restructuring that are not bound by images drawn from theories solely based on studies of restructuring in the private sector.

#### **Studying innovation in practice**

Thirdly, most contemporary research on restructuring practices is merely anecdotal, consisting of vague narratives based on limited cases. Consequently, we know surprisingly little about how restructuring practices are developed on a broader scale. Existing studies suggest, however, that restructuring practices are constructed in social interaction, where social partners gradually learn how to deal with the problems of restructur-

ing. Focusing more attention on how social partners interact and negotiate to coordinate their restructuring practices would open researchers to exploring how the social context in which work is embedded shape the utility and the meaning of restructuring.

#### **Focus on innovation**

Fourth, examining, in detail, how social partners develop restructuring practices might highlight dynamics that are not well anticipated by studies that focus narrowly on the short-term effects. For instance, our studies of restructuring practices in Sweden indicate that organizations that take social responsibility may incidentally lose their status, or have difficulties to retain their position as socially responsible employers. Socially responsible restructuring creates expectations of providing additional benefits for workers, which may be difficult to provide in the long term. Since restructuring always have negative effects on the displaced workers there are always claims that employers should do more. Social responsibility may also boomerang back to simply following what is required by law. Incidental changes may not always lead to permanent changes. What is left, may be a changed attitude to restructuring, when the restructuring programs are completed. It is difficult for employers to sustain a high level of social responsibility and it is difficult to reduce benefits once offered to workers. Focusing on the processes of innovation may highlight changes in the meaning of restructuring, rather than changes in their effects, i.e. whether one practice is more efficient than the other. Studies of innovation would also bring issues of power and control into sharper focus and perhaps lead researchers to study relatively neglected issues of when and how restructuring are developed as a consequence of power relationships between social partners rather than their effects in the labour market for those workers who are displaced.

#### **Highlight Institutions**

Finally, we know almost nothing about how restructuring practices affect labour market institutions. More important than the mere existence of restructuring practices is the local adjustments that these practices create. There are several case studies that highlight

how restructuring practices are developed to avoid or circumvent employment protection legislation. The way restructuring is practiced is likely to determine the role and impact of labour law. These changes may be both structural and normative. Until we understand the character of these changes, we cannot fully understand the social implications of socially responsible restructuring practices. For instance, if collective agreements allow employers to use other criteria for selecting workers for dismissal than required by labour law, then the norms and behaviours they support may have consequences for the role of labour market institutions. Specifically, the recent collective agreement between blue collar-worker trade unions and the Swedish employers association, provide incentives for the establishment of an outplacement agency industry, which may in the long-term offer their services to the public employment service. Such a development, if it were to occur, would represent a significant change in the conditions for labour market policy.

In sum, the development of restructuring practices represents one of the most important challenges in the Swedish labour market. Because these practices are negotiated through collective agreements, they are likely to have as crucial an influence on the conditions in the labour market as did the employment protection legislation in the 1970s. In fact it may be argued that the re-establishment of dialogue between social partners and the emergence of job-security agreements is a return to a stage before the age of state involvement in industrial relations, when labour markets were primarily regulated by means of collective agreements between social partners. At the moment, researchers have only begun to devote attention to these developments. Our sense is that the social implications of restructuring are so important that researchers cannot afford to use clear cut polarized images of the consequences of this development. Our purpose has been to illustrate the problems of doing so and at the same time pointing out possible challenges for future research in the field.

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