Restructuring in the UK Insurance Industry: innovation or emulation?

Geof Luton, (Working Lives Research Institute), UK

Executive summary

This case study is of a major UK insurance company (IUK), over a ten year period up until its acquisition by a French Insurance company in 1999. It is set within the wider context of the restructuring of the UK finance sector. In IUK the process involved the loss of 2,500 out of 9,000 jobs and the dismantling of company level collective bargaining through the separation of the company into five business units, leading to the marginalisation of the union.

Job losses took the form of not filling vacancies, redeployment, relocation, early retirement and 'voluntary' and to a lesser extent compulsory redundancies. The trade union was able to use external actors as pressure points to limit job losses, maintain representation and to ensure the cost of restructuring to the company was high through substantial redundancy and early retirement packages. A feature of the reorganisation was the use of the company pension scheme to provide generous compensation to those losing their jobs. This compensation package was such that there was a high demand for voluntary redundancy.

There was no concrete engagement with any public employment agencies and there was no tradition within the finance sector of their use and resistance to the perceived utility of public agencies at national and local level. The only involvement of external agencies was the engagement of private management consultants, who played a role in job counselling and outplacement.

MIRE est soutenu par le Fonds social européen, Art. 6 – Actions innovatrices
Les informations contenues dans cette publication n'engagent pas la Commission européenne

Restructuring in the UK Insurance Industry: innovation or emulation?

I. Introduction

This report presents a case study of Insurance UK (IUK), a major UK insurance company, over a ten year period up until its acquisition by Insurance Fr in 1999. It has been carried out as part of the ESF funded Monitoring Innovative Restructuring in Europe (MIRE) project. This is a comparative project covering France, Germany, Belgium, Sweden and the UK, which aims to monitor and generalise best practice in relation to innovative internal and external company restructuring. The project will analyse the role of social partners in restructuring, focusing on case studies of 'innovative' responses or practices. The case study of IUK represents one of the first wave of comparative case studies, designed to reflect the organisational restructuring process in the country concerned. These first case studies allow cross-country comparisons of large organisations attempting to be socially responsible in restructuring and illustrative of the national restructuring process. Section 5 addresses the transversal themes of the project. The conclusions discuss how typical this case study is of UK approaches, systems and processes in restructuring episodes.

II. Research methods

The methods include 10 semi-structured, face-to-face interviews with operational managers, human resource managers, trade union lay and full time officials and external experts. Access was facilitated through the trade union Amicus, to staff employed by successor companies to IUK (both Insurance Fr and Insurance NL). The aims and objectives of the research were outlined to the participants. The interviews were conducted in July and August 2005 and lasted about one hour. They were conducted privately with the respondents and were taped and transcribed. The case study is, in addition, informed by documentary analysis of trade union and company resources and other published studies.

III. The UK Insurance Industry

The UK Insurance Industry was subject to considerable restructuring in the 1990s. This was driven by legislative changes, expansion of product range, the opening of European

MIRE est soutenu par le Fonds social européen
Art. 6 – Actions innovatrices
Les informations contenues dans cette publication n'engagent pas la commission européenne

and global insurance markets, technological innovation and economic recession. The Insurance Industry has three main categories of activity. These are life insurance, general or non-life insurance and reinsurance. Life insurance covers pensions, annuities and permanent health insurance. General insurance covers the assets of individuals and businesses and reinsurance is the 'insurance of the insurers', the wholesale side of the industry. Nearly 80 per cent of the world insurance market is dominated by companies whose home country is part of the seven leading industrial nations. The British insurance market is the biggest in Europe, and the third largest in the world, accounting for nine per cent of total worldwide premium income. The Association of British Insurers estimate there are 354,000 people employed, directly or indirectly, in the UK Insurance Sector (ABI 2005). Nearly a quarter of UK insurance companies' net premiums are derived from overseas business. Long term insurance (particularly life insurance) is considered by industry analysts as a key activity. It is often considered that companies that perform strongly in this sector are better able to cover risk in other product markets.

A combination of factors caused major changes in the UK insurance sector in the 1990's. There were considerable similarities with the mergers, acquisitions and restructuring that took place in the UK banking sector in the early 1990s. The recession of the late 1980s caused declining profitability particularly in the general insurance market. Insurance, like banking, enjoyed continuous employment growth up to the end of the 1980s when recession began to reveal a considerable gap between the rate of growth in employment and the relative sluggishness of financial performance and productivity. The highly developed UK market became a battleground to maintain market share and encouraged UK insurance groups to undertake restructuring programmes, which were similar to those undertaken by UK banks.

IV. Company background

IUK was a large composite insurance company dealing in both life and general products. It had been established in the late 1960s through a merger of two prominent UK insurance companies. It could trace a marine insurance history back to the 1720s.

IUK is a company with shareholders, unlike mutual insurers, which are owned by their policyholders. Up until 1994 its management structure and organisation tended to match its traditions. Senior management came from within the insurance sector and often rose through the ranks. The Chief Executive up to 1994 'often reminded us that he had started

MIRE est soutenu par le Fonds social européen, Art. 6 – Actions innovatrices
Les informations contenues dans cette publication n'engagent pas la Commission européenne

work as an office boy in London' (Trade Union Lead Bargainer, 1989-1991). Management organisation was based on divisions that were differentiated by product type and geographical location. Managers had professional qualifications such as underwriting or actuarial and promotion came through length of service.

There were 9000 employees in 1994. The workforce was divided evenly between men and woman, but men were more likely to dominate management positions. In the two main regional centres there was significant recruitment from the local labour market. Throughout the company there was a tradition of long service and relatively low turnover of staff. A feature of IUK's workforce was its traditional expectation of joining the company and securing a 'job for life'.

IUK employees were represented by a staff association up until 1979. Staff associations were widespread in the financial services industry in the UK. These were company specific organisations usually set up with support from management in the first half of the twentieth century to avoid the challenge of independent trade unions in the financial services sector. This form of organisation has declined in the sector over the last 25 years as management have adopted a more aggressive approach to employee relations. Staff associations became part of independent trade unions such as BIFU/ UNIFI and MSF (both UK finance unions now part of, private sector union, AMICUS). The IUK staff association transferred to BIFU (the Banking, Insurance and Finance Union) in 1979, at the historical peak of trade union density in the UK. Henceforth, employee voice generally in the 1980s and 1990s was going to weaken almost everywhere, as union membership declined and following the defeat of the miners in 1984-85, industrial action appeared to involve greater and greater risks of defeat. In the 1980s and early 1990s relations between IUK and BIFU became highly institutionalised, reflecting a more stable industrial relations climate. Collective bargaining took place annually between the company and a team consisting of union full-time officials along with lay representatives from the IUK BIFU National Committee. Facilities agreements provided for seven full time staff across three offices wholly funded by the employer working on behalf of the union plus time off arrangements for a number of local representatives. Individual casework was dealt with by these seven full-time seconded representatives. In practice, the union's relationship with its members changed little from the period when staff had been represented by a staff association. Effectively there was no genuine local representation system as positions were often not filled or uncontested when elections took place. There was no pattern of regular workplace meetings. Not surprisingly, there was no incidence of

MIRE est soutenu par le Fonds social européen, Art. 6 – Actions innovatrices
Les informations contenues dans cette publication n'engagent pas la Commission européenne

industrial action; the relationship with members was largely passive with members' views being expressed only through an annual consultative ballot on the overall pay claim. An annual conference brought together union activists from the different sites and set the overall policies to be pursued by the union full-time officers responsible for IUK. A respondent described the industrial relations system as permitting an 'adult level of debate' (Regional Human Resource Manager 1994-1999). There was a central group-wide set of terms and conditions, which were the subject of formal agreements, arrived at within Company/ Union negotiation and consultation procedures. Up until 1995, the Union negotiating team (led by a full time official) would meet a management negotiating team (led by IUK UK Chief Executive) each quarter.

V. Competitive problems and issues

IUK sustained a position as a leading composite insurer until the late 1980s when there were some events that raised some doubt regarding its integrity and reliability. Firstly, the company was seen to have used unlicensed sales staff over the period 1989- 1990 which led to a fine by the industry regulator in 1994 for being in breach of the unit trust and life assurance regulations. Secondly, the company made a poor purchase of a stake in three Italian insurance companies, which led to the writing off of a £67 million investment over two years. This was accompanied by a significant cut in share dividend in 1991. Finally, there was a well publicised 'whistle blowing' case that cast doubt on some of their accounting practices. At the same time the 1989 – 1992 recession in the UK economy exposed the company's weakness in terms of its relative dependence on general insurance rather than safer long-term life insurance. In the view of one respondent the life insurance side of the company was 'so, so close to closing down' (Trade Union workplace representative 1991-1999) and this period was echoed within a number of other respondent interviews. The problems of IUK can be seen as both 'internal' organisational weaknesses and 'external' market pressures. The internal organisational weaknesses can be grouped into four areas. Firstly, the Company's UK Life insurance business was underdeveloped because of a number of poor decisions relating to private pension schemes. The weakness in long-term products made the company over reliant on the more volatile general insurance side. Secondly, the closure of local branches created a necessity for new technologies to be developed, linked to regional centres to deliver a 'customer facing' service. Thirdly, the company's management information systems on various products were inadequate. Finally, industry analysts started to question how well the company was being run given the events of the late 1980s and early 1990s relating to the company's overall integrity and reliability. The external problems included: the weak IUK life insurance profile and its over dependence on general insurance; the emergence of direct selling competitive pressures particularly in the UK motor market through the creation of Direct Line by the Royal Bank of Scotland; and the merger of key UK competitors Royal and Sun Alliance in 1995. Market pressures thus increased on IUK. This view of having become 'wrong sized' in the UK insurance market was 'a constant mantra of the executive throughout the 90s' (Regional Human Resources Manager 1994-1999).

VI. Intervention

There are three identifiable phases of the re-structuring of IUK:

- Phase 1 Prologue 1989 – 1993
- Phase 2 Episodes 1994 - 1997
- Phase 3 Exit 1998 - 1999

Each will be considered in some detail.

Prologue 1989-1993

The prologue period was characterised by the external issues and internal weaknesses identified above. IUK performed poorly financially in 1990-1991 and started to take some tentative steps towards restructure. The company refocused on its core products in the UK and reverted to its traditional policy of acquiring small niche market companies in the USA. It bought into the expanding UK healthcare sector in 1993 through the purchase of a company that also traded in household and motor insurance. Also, in 1993 it announced the launch of IUK Direct to respond to the demand for call centre delivered insurance products. The solvency ratio (an indicator of a companies underlying financial strength) was severely weakened in the period 1990 – 1993 and only started to recover as the restructuring strategy took effect (see Table 1). The solvency ratio in the case of insurance companies is calculated as the percentage of shareholders funds (net assets) to written general insurance premiums. The lower the ratio, the weaker the company's financial position.

Episodes 1994-1997

IUK's traditional business structure did not cope during the period 1989-1994 where it was considered that the composite UK insurers like IUK 'under performed the rest of the market by 47 per cent' (Financial Times. 2nd March 1997). The need to restructure was reflected by the appointment of a new Chief Executive in 1994. He came from outside the IUK 'family' and had no background in composite insurance. He was committed to developing a new product range along with extensive internal organisational reform. The new business strategy involved the expansion of the UK group and of the acquisition of smaller companies and the insurance operations of non-financial services companies, accompanied by the expansion of the company's overseas activities by acquisitions and partnerships. Between 1994 and 1997 the company entered into partnerships with a motoring organisation and a building society as well as purchasing the commercial insurance division of a rival insurance company. It also developed the IUK direct sales customer base from 150,000 in 1995 to over 700,000 in 1997. In the early 1990s, overseas earnings tended to compensate for sluggish UK performance. By 1997, 60 per cent of the company's general premium income came from its overseas activities. So, the overall business strategy during 1994-1997 was to reposition itself in the UK whilst expanding its overseas activities in established and expanding markets. Along with the above major changes in management personnel, structure and organisation were instigated:

- 'Professional' executives were recruited with responsibility for areas such as Information Technology, Finance, and Human Resources. None of these came from the insurance sector.
- A programme of management re-organisation was initiated which removed the middle layers.
- The organisation was restructured into five distinct business units. These were Information Technology, IUK Investment Holdings, IUK Insurance, Corporate Centre and IUK Financial Services.

The company moved to 'team working'. Teams were run by leaders (usually local managers) who took increased responsibility for the performance and output of those under their charge and effectively devolved responsibility from senior management level. These measures involved redundancies in middle management as well as creating a constant feeling of change amongst both workforce and management. This was described in a similar way by trade union and management representatives:

> 'I always called it the salami approach, a slice at a time but it kept some people on their toes' (Trade Union workplace representative 1991-1999)
>
> 'It was a constant chipping away, then, of how we'd done the work... of why we organised it this way or that ... a chipping away of the amount of people' (Regional Manager, 1994-1997)

One additional feature of these changes in work organisation was the extensive use of external management consultants in the period 1994- 1997. They tended to focus on specific work processes using standard BPR (Business Process Re-Engineering) methods (Hammer and Champy 1994). A respondent recalled:

> 'They introduced what they called OERS, that's Organisational Effectiveness Reviews from about 1993-1995. I remember four major exercises in Lytham, Edinburgh, Branches and other parts ... they were done by Price Waterhouse Coopers. They said they were after staff savings of 20 per cent and we ended up with job losses in Lytham of 270, in the branches 200-ish, others 150, and around 70 in Edinburgh' (Trade Union workplace representative 1991-1999)

There were also external consultants used for counselling when jobs were being lost and staff made redundant or redeployed. Other consultants worked with managers and staff on 're-engineering' work processes. This was seen as helping managers to implement job cuts on a scale they would otherwise not consider as well as removing the process from the collective bargaining sphere.

Along with these changes the company also looked at reforming its UK business focus. It started with the life and pensions part of the business (IUK Financial Services) in 1994-1996 and moved into the household and motor insurance area (IUK Insurance) in 1996-1997. The business strategy and its implementation were distinct from the previous approaches. The method of implementation was piecemeal with the company making new pronouncements about change at regular intervals. In some cases a relatively large number of staff were affected; in other cases smaller numbers were involved. The pattern of change was similar in that management numbers were cut, staff levels reduced, traditional management skills displaced and new work teams established. This process can be illustrated by the following trade union newsletter published in September 1996:

Account Management – Life and Individual Pensions 18 (40%) Jobs to Go

Today, Management announced a major change in the role of Life and Individual Pensions (LIP) consultants … The existing Sales Manager role within the Individual Channel is to be replaced with a new position, National Accounts Manager. This will see the reduction in positions from 9 to 3.

Following on from the account management project, the company no longer see a role for LIP consultants. Therefore, all existing LIP consultants have been told that their jobs are redundant. This is 36 positions. Replacing the LIP consultants will be a new role, Business Development Manager. There will be 24 positions, a reduction of 12. Management see this role as demanding significantly different skills to the present role. All affected LIP consultants have been given a copy of the new role profile, and all LIPs will be invited to apply for the new role. All LIP consultants will be given time to think about this announcement. They will be given the option of applying for the new position of Business Development Manager, take redundancy or go for redeployment within the Company. Selection for Business Development Managers positions will take place over two dates in October. As the role is significantly different from the present role, existing trial periods will apply. For those LIP consultants and sales Managers who are made redundant, full support services will be provided. This will include joint counselling with a BIFU official and a member of Human Resources (HR). BIFU will also be pressing Management for redeployment of members and retraining for other available jobs.

(BIFU Newsletter, September 1996 quoted in Poynter 2000:130)

The best estimate is that the central IUK workforce shed 2,500 (out of 9000) jobs between 1989 and 1998. As there were acquisitions of new companies in this period it is not possible to put a more precise figure on it. The workforce was concentrated into regional centres in East Anglia and the North West with approximately 1000 staff on each site. Other employees were in six smaller regional offices that employed between 200 and 300 staff at each. The remainder of staff were based in the Company's London offices, at three 'direct sales' workplaces and in the offices of other companies they had acquired in the 1990s. The direct sales workplaces showed employment growth whilst the East Anglia and North West regional centres had staff reductions.

MIRE est soutenu par le Fonds social européen, Art. 6 – Actions innovatrices
Les informations contenues dans cette publication n'engagent pas la Commission européenne

Consultation on change

The way in which consultation took place in the period up until the 1995, when bargaining mechanisms were devolved to individual business unit level, was viewed positively by trade union actors.

The existing collective bargaining agreements in IUK were typical of those in the finance industry at the time, reflecting the UK voluntarist tradition of industrial relations in that the collective agreement itself is not enforceable in law. This is a system that has been described as a 'somewhat fragile hybrid - a rather uneasy compromise between voluntary collective bargaining, statutory intervention and individual rights (Monks 2003).

One respondent noted that in discussions relating to the removal of the final salary pension scheme in 1992-1993 that:

> 'Consultation was as good as you could get and when we asked for information we got it, some quite difficult stuff that it took them ages to produce, and because we kept the agenda moving and because we never absolutely opposed it, we did give them the excuse of saying you really don't want to do this so we are going to push ahead - we kept holding out the prospect of them reaching agreement with us which would smooth the introduction' (Trade Union Lead Bargainer, 1991-1996)

The collective agreements in place were, in practice, unilaterally altered by management in 1995 through the changes to institutional arrangements detailed below.

Consultation on change

The earlier employee voice system of relying on company collective bargaining was rapidly dismantled in the period 1994-1997. IUK's change in its approach to the trade union in this period had a number of key strands. Firstly, there was modification to the

MIRE est soutenu par le Fonds social européen, Art. 6 – Actions innovatrices
Les informations contenues dans cette publication n'engagent pas la Commission européenne

institutions that regulated management – union relations. Secondly, management took control of the bargaining agenda, which cast the union into a completely reactive way of working. Thirdly, the weak relationship of the union with its membership was exposed by the company's 'downsizing' programme. Finally, senior management adopted an approach of marginalisation with a view to potential union exclusion.

The key to the institutional changes was the break up of the organisation into five distinct business units. This was the end of collective bargaining at company-wide level. Its demise was announced by the company in 1995 when it stated that the company was to review its 'remuneration policies and practices with a view to recognizing the needs and constraints of the separate companies in their different market places (BIFU Newsletter, 4th August 1995). Coupled with this there was the announcement of a freeze on salary increases for all staff at annual salary review time in July 1995. An attempt to resist the break up of collective bargaining and the pay freeze by, firstly a consultative ballot (with a 70% turnout and two thirds rejecting the company's proposal) and, secondly, an industrial action ballot (49% turnout, but two thirds rejecting action) was a watershed in the union's development. This rejection of industrial action effectively demonstrated the weakness in the union's relationship with its own members, as the tradition of balloting was not linked with any concept of collective action dependent on outcome. One local trade union activist described the ballots as 'more of a plebiscite than a call to arms' (Trade Union Seconded Officer, 1994-2000).

The separation into five business units was the catalyst for management to marginalize the union in several ways. Firstly, the union lost contact at the top management level of IUK where employee relations' policies were decided. Secondly, union activity was unevenly spread across the five business units, which meant that two of the weaker areas of representation (IUK Investment Holdings and IUK Corporate Centre) were effectively removed altogether from collective bargaining. Full time and seconded union officials continued to seek meetings with management in these areas but often without the benefit of a formal channel of communication with members through elected workplace representatives. These areas had been traditionally weakly organised (often without workplace representatives) but this had been masked by the organisation-wide determination of terms and conditions of employment. The trade union was unlikely to pick up changes taking place in any systematic way as the management could extend the concept of divisional autonomy as far as they thought they needed to. Finally, the ability of the union to develop strategy without central focus was severely tested. Bargaining at local level never really emerged in any substantial sense. While union opposition to compulsory redundancies continued in this period, in practice its role was confined to ensuring that staff received effective counselling on their options and that the terms for redundancy payments were maintained.

The core principles of the agreements with the individual business units (and the overall corporate centre in respect of pensions and equality issues) were:

- The company undertakes to maintain effective communications with the union and to provide such information as the union needs to fulfil its role;
- The Company will consult with the union at the earliest possible time and before any plans are implemented, or innovations enacted that materially alter the working conditions or conditions of service affecting staff within the bargaining area. The object of this consultation is to ensure that any such plans or innovations are introduced after appropriate consultation in a manner which is acceptable to both parties;
- Management recognise the role of the union and encourage union membership while (the union) recognises management's right to manage the operation of the company.

The agreements and arrangements evolved in the separate business units were finally included in the review of Core Benefits (effective January 1997) and the Employee Relations Review (effective January 1999). In addition to the above core principles there was a separate agreement between the company and union on redundancy and redeployment called the Security of Employment Agreement, which determined detailed arrangements and entitlements. This included largely unchanged arrangements on payment terms rights to redeployment, trial periods and selection criteria.

Clearly, there were also statutory responsibilities in areas such as time off for trade union activity and advice on redundancies. Within each business unit there were between four and six scheduled joint consultative meetings per year with the trade union team led by a senior lay or full time trade union officer.

The process of informing and consulting with trade union representatives continued in the period up until the sale of IUK in 1999. The company did, however, initiate a review resulting in some reduction in the facilities provided to the union. For example, the overall provision of facility time was reduced for the lay chair and use of the company's premises for a union office in central London was discontinued. In a 'special edition' of the union newsletter in March 1999 the outcome of this review was described thus:

'Although the changes do not meet our aspirations in every aspect we have reached agreements which provide a solid basis for our ability to represent members' interests in the future and compares favourably with arrangements elsewhere in the industry' (BIFU Unionise Newsletter, March 1999).

The impact of change

Job losses were through a mix of voluntary and compulsory measures as well as non-replacement of staff who left the company to work elsewhere. These included relocation, early retirement and voluntary redundancy. The systems and procedures were determined partly by custom and practice, partly by written agreement.

During this period, the trade union 'seconded representatives' and local lay representatives spent a lot of time and effort helping members with redeployment issues. Redeployment was available both within and between locations as attempts were made to allow 'volunteers' to take redundancy to allow otherwise redundant staff to move into to these jobs. A voluntary redundancy register, where individuals identified that they might be prepared to take redundancy if the opportunity should be offered, had been a feature of IUK's job security agreements over some time and remained in use. Re-location packages were available along with re-training to undertake changed job roles. There was also the opportunity of a six month trial period where an individual could opt to leave on a voluntary basis if the role change didn't work out. However, there is evidence that the take up of re-location was often driven by status and gender in that male staff were much more likely to be in jobs that were well paid enough to move and not have significant caring responsibilities. On re-location, a respondent noted:

> 'it seems to me it was a good arrangement … in theory, at the time it didn't have a lot of take up from women who, I suppose, didn't earn enough to up sticks and move or had caring things to do, or something. I don't have any figures any

more, but I think we made the points on it being unfair to women returners at the time' (Trade Union Seconded Official, 1994-2000)

Outplacement consultants undertook joint counselling with trade union lay officials, which tended to reinforce the position of the trade union as one relegated to dealing only with the consequences of implementation. The role of the consultants was to address issues relating to the application of the company's redundancy procedures and to highlight the provision of training for staff in producing individual CVs or preparing for job interviews. The amount of time contracted for and paid by the company per individual to the consultancy company was dependent on grade and status. That is, the more senior staff were, the more time was allocated. The work on outplacement was seen as useful by both the trade union and company.

The terms for redundancy provided for payments of five weeks per year of service up to a maximum of two years pay plus statutory redundancy. There was an option for over 50s to draw an immediate unreduced company pension with no actuarial reduction as well having five 'extra' years notionally credited. This was effectively using the IUK pension scheme surplus to subsidise parts of the restructuring programme. A typical redundancy package for an individual with 25 years service facing severance at age 51 years can be broken down into the following constituent parts:

On an annual salary of £25000 the payout would be as follows;

IUK severance pay 25 years x 5 weeks per year = 102 weeks (max) £50000

Plus state redundancy payment (based on notional £280 per week maximum wage x 30 weeks) = £8400

Therefore total severance pay is £58400.

The first £30000 would be tax free in UK. Then, the immediate pension would provide 25yrs + 5 = 30 years service at a rate of accrual of 30 x 1/60th = 30/60ths. This is £12500 per annum.

There was also a system that enabled staff to purchase shares in the company that was widely used. If left unsold for a five year period any proceeds would be free of income tax.

The overall monetary costs to the company of its cumulative restructuring are hard to estimate since over the period there were various acquisitions and sales of parts of the business. For example, in the 1996 accounts a 20 per cent drop in pre-tax profit included '£39 million in restructuring costs and provisions for integrating Legal & General' (EBN 25/02/1997). How much of this was integration costs and how much was restructuring costs and what these terms represented remained opaque.

Union membership density was around 60 per cent at the start of the 1990s. This density had declined by 1999 to an estimated 45 per cent. The factors responsible were the overall politically negative environment for unions up until 1997, the restructuring itself (where many jobs were lost from traditionally well organised areas), the acquisition of companies where there were no trade unions recognised and few if any existing trade unionists and the establishment of IUK direct sales business unit, where no trade union recognition or access was allowed. IUK Direct was staffed initially with predominately part-time staff that added to the difficulties in unionising the unit.

External interventions

The use and intervention of external agencies almost wholly comprised private management consultants. It was not in the tradition of private sector, financial services organisations in the UK in this period to consider that public agencies were of any real value. Two observations from respondents (one trade union, one company) support this view:

> 'There was no use of TECs (Training and Enterprise Councils) or things like that, it just wasn't part of the company's ideology' (Trade Union Seconded Officer, 1994-2000).

> 'We advised the authorities of job losses on the right form as it was our statutory duty and talked to the local job centres but it was only a courtesy, I think, well, it was my view that there wasn't a lot that they could do that we couldn't do better ourselves, we knew our people and I don't think we thought they were very good at what they did, did they 'add value' or whatever was the test at the time?' (Employee Relations Manager, 1991-2001)

For the trade unions the threat of involving external actors was key over two issues in this period. Firstly, the threatened closure of the Life office in Edinburgh; secondly, the attempt by IUK to establish a group wide employee consultative body with no distinct trade union voice.

The closure of the Edinburgh office with the transfer of the work to a large regional processing site in Lytham was proposed in 1994 as part of the OER process. Edinburgh staffing was 225 at that time. Within the consultation and bargaining process the unions threatened to make the issue highly public on the basis that a major UK insurance company was abandoning their operations in Scotland and moving jobs to England. A respondent reflected on the novelty of this approach:

> 'I think we lost about a third of the jobs, but maintained the site, we did that on the basis of that it would be a political issue with a big 'P' - the prospects of [Scottish] nationalists, for example, getting involved, but it was an obvious approach to be honest and I think its one of those things .. because of the relationship we had, because we'd never done anything like that before, for the employer it was the fear of the unknown … so they believed us' (Trade Union Lead Bargainer, 1991- 1996)

The second example of external intervention used by the trade union side was related to the company's attempt, in early 1997, to set up an employee consultative forum without a distinctive trade union voice. In July 1997, IUK unilaterally announced the establishment of a group wide 'employee forum' to cover all employees throughout their worldwide operation. The BIFU IUK team co-ordinated action primarily with trade union representatives in IUK companies in Germany and Ireland to threaten legal challenges (under legislation relating to the formation of European Works Councils) to ensure there were designated trade union seats.

Exit 1998-1999

The Chief Executive brought into IUK on 1994 remained 'a fierce champion of independence' (Daily Telegraph 23/11/1998) who opposed offering IUK for sale throughout his period of appointment. However, the city press started to speculate that 'leading shareholders' (Daily Telegraph 23/11/98) had come to the view that the company was too small to go it alone. It was sold to Insurance Fr in May 1999:

> 'Prior to that (the sale to Insurance Fr) we had had a meeting with IUK which took place in the royal exchange, which was a very scary one where they were talking

> about restructuring - their general insurance anyway - and cutting vast numbers of people because the company was in such a state and I think they were genuinely thinking that – I don't think it was that we'll make the takeover seem less bad - but they must of known they (Insurance Fr) were in the wings' (Trade Union Lead Negotiator 1998-2000)

Insurance Fr promptly announced that there would be £55 million in cost savings, which would represent 2500 further jobs to go. The Life insurance part of the company was then sold to Insurance NL later that year by Insurance Fr. When respondents were asked what the consequence of more limited restructuring activity might have been during the period studied the most common response was that they thought IUK would have been bought earlier than 1999:

> 'Somebody might have come for us earlier, but the chances are it might have seen IUK as a company going through a lot of change and therefore "let's wait until the change is over before we get involved as its less messy, in other words it's a slimmer company' (Regional Manager, 1994-1997)

'I think it was the city saying you've got to get leaner and meaner and the city was picking on them quite a lot I think at the time and saying they're not adapting, they are not going to survive, they're ready for a takeover - I think there had been quite a few years of not good profits. Our view on takeover? Well, if it was a big European insurer, there was the possibility they would buy something they wanted to build on rather than decimate' (Trade Union Lead Negotiator 1998-2000)

VII. Transversal Themes

This section locates the case study of IUK within the context of the five transversal themes of the MIRE project, identifying how each theme was or was not reflected in this case of organisational restructuring.

The Health Impact

The company took no specific measures to address the health and psycho-social impact of restructuring beyond job counselling and outplacement services of a limited nature.

MIRE est soutenu par le Fonds social européen, Art. 6 – Actions innovatrices
Les informations contenues dans cette publication n'engagent pas la Commission européenne

Organisational Impact

The restructuring process was characterised by the use of external management consultants to affect change using business process re-engineering methods. It involved a programme of management reorganisation and the recruitment of professional executives. In organisational terms the key element was the fragmentation of the company into five separate business units. The cost of restructuring to the company would appear to be significant. The solvency ratio (an indicator of a companies underlying financial strength) recovered as the restructuring strategy took effect.

The process involved the loss of 2,500 out of 9000 jobs over ten years. This took the form of not filling vacancies, redeployment, relocation, early retirement and 'voluntary' and to a lesser extent compulsory redundancies. Redundancy compensation was substantial and the company effectively used the pension scheme surplus to subsidise parts of the restructuring programme.

Public Employment Service and Active Labour Market Policies

Although the local job centre was informed of potential job losses, there was no concrete engagement with any public employment agencies and there is no tradition within the finance sector of their use. Views on the perceived utility of public agencies at national and local level suggests that resistance to their involvement appears to be informed by ideological considerations. The only involvement of external agencies was the engagement of private management consultants, who played a role in job counselling and outplacement.

Territory

This case study is typical of its time (the 1980s) and sector (finance) in the absence of any regional intervention or activity. One exception was the threatened political mobilisation against the closure of the life office in Scotland on the basis of the relocation of employment from Scotland to England.

MIRE est soutenu par le Fonds social européen, Art. 6 – Actions innovatrices
Les informations contenues dans cette publication n'engagent pas la Commission européenne

Trade unions

Prior to the restructuring process industrial relations were highly institutionalised, based upon collective bargaining at company level. Despite a healthy trade union membership workplace organisation was under-developed and the union membership somewhat passive. This was reflected in a ballot against job losses, which the union could not translate into support for industrial action. The union actors believed that the consultation process was adequate. The key event was the dismantling of company level collective bargaining through the separation of the company into five business units, this effectively excluded two of the areas where the union was weaker from collective bargaining and led to the marginalisation of the union, which lost membership and power through the restructuring process. However, it was able to use external actors as pressure points to limit job losses, maintain representation and to ensure the cost of restructuring to the company was high through substantial redundancy and early retirement packages. The high demand for these packages meant the union's position was somewhat circumscribed. 2000)

VIII. Conclusions

In concluding three questions are considered. Firstly, can this case be viewed as typical of restructuring in the UK? Secondly, what was the nature of employee representation and voice in the process? Finally are there any elements that can be considered innovative?

There are number of characteristics of the re-structuring process in IUK that appear, on the face of it, to be based on what some commentators have termed 'the American model' (Kochan et al, 1996; Roach, 1991) Poynter identifies five elements that characterise this model. These he suggests are: changes in management organisation and structure; the use of information technology to re-engineer work processes; the development of a customer orientation; the extensive use of external consultants; and, the introduction of new patterns of employee relations (Poynter 2000:28). Sennett suggests that 'only in the highly paid fantasy life of management consultants can a large organisation define a new business plan, re-engineer itself to suit, then steam forward to realize the new design' (Sennett 1998:49). It is debatable whether in IUK's case some of the philosophies behind restructure were no more than what was fashionable at the time; a process of emulation in which the external consultant is key to transmission. Similar systems and techniques were used in restructuring throughout Financial Services in the UK in the late 1980s and early 1990s.

There is no doubt that a significant reduction in the cost base of the organisation through a reduction in labour costs was an objective in the re-structure of IUK. This was consistent with what was happening throughout the UK insurance industry and wider UK finance sector at the time. The trade union was seen to be an impediment to reorganisation and thus the move away from central collective bargaining was seen as key to this process by senior management.

The trade union was successful in keeping the cost of dismissing staff relatively high for IUK and concentrated on case work and personal support to achieve this. Whether there were enforced redundancies is a moot point – a way was usually found between the trade union and the employer to make the package acceptable to the individual. A feature of the reorganisation was the use of the company pension scheme to provide generous compensation to those losing their jobs. This compensation package was such that there was a high demand for voluntary redundancy. This was characteristic of private sector restructuring in the sector and led to the emergence of a 'culture of entitlement'. In the finance sector the workforce was generally skilled and could move into alternate employment with relative ease and increasingly, no expectation of a 'job for life'. Although typical of the time the subsidisation of restructuring through the pension scheme is no longer a viable option for UK companies.

Social dialogue was confined to the company, employees and trade union. There was no state intervention beyond the provision of a legal framework regulating employment relations and setting minimum standards. The IUK restructure did not feature the total closure of a workplace or withdrawal from a particular location providing significant employment that may have been a catalyst for more active state intervention. Where it did, in the threatened closure of the Edinburgh site, an accommodation was reached between the actors involved. The absence of engagement with state agencies is probably specific to the finance industry; although the election of a Labour government in the UK has probably seen more use of state agencies in other industries, here there remains an ideological resistance to the use of such agencies.

MIRE est soutenu par le Fonds social européen, Art. 6 – Actions innovatrices
Les informations contenues dans cette publication n'engagent pas la Commission européenne

The process of restructuring was achieved through consultation with the trade union and a shared understanding of the problem and solution. Yet, employee relations institutions were changed in the period examined, collective bargaining was devolved, in some cases fragmented, and a new employee group forum was introduced. However, it is possible to argue that the outcomes were such that the relationship between the trade union and human resource function in IUK was in some ways remarkably resilient and changed less in practice than the rhetoric suggested.

Finally how innovative was the restructuring process? The case of IUK has a number of 'text book' rather than innovative characteristics, but this does not mean that it represents bad practice:

- there was flexibility in the application of the exits by individuals from the company by redundancy. Representations on behalf of individuals to the company by the trade union were often successful;
- there was a careful acquisition process by the company in the period concerned;
- joint counselling for staff under threat of redundancy was introduced;
- there was offers of re-location and re-training for individuals;
- the financial exit terms were good compared to finance industry and UK industry overall;
- the worst potential possibilities of applying the text book 'American' model of restructuring were tempered by the resilience of existing attitudes and institutions.

IX. References

ABI (2005) Association of UK Insurers, UK Insurance Facts accessed at http://www.abi.org.uk on 23rd August, 2005

Cressey and Scott (1992) Employment, technology and industrial relations in the UK clearing banks: Is the honeymoon over?

Edwards, T (2004) Corporate governance, industrial relations and trends in company-level restructuring in Europe: convergence towards the Anglo- American model?, Industrial Relations Journal, Vol 35, No 6

Hammer, M, Champy, J (1995) Re-engineering the Corporation, New York, Harper

IUK Report and Accounts 1989-1996

Kochan, L, Katz, H, McKersie, R (1986) The transformation of American Industrial Relations, New York, Basic Books

Monks, J (2003) A Eurovision at Work, Warwick Paper in Industrial Relations, No 70, June 2003 accessed at http://users.wbs.warwick.ac.uk/cms_attachment_handler.cfm?f=1026a287-94cc-11d7-a728-0060086f6c77&t=wpir70.pdf on 23rd October, 2005

Poynter, G (2000) Restructuring in the Service Industries, London, Mansell

Roach, SR (1991) Services under Siege – The Restructuring Imperative, Harvard Business review, Sept-Oct 1991

Sennett, R (1998) The Corrosion of Character, New York, Norton

Table 1 – IUK Solvency Ratio 1989- 96

	1989	1990	1991	1992	1993	1994	1995	1996
Non – life business written premiums (£ million)	2004	2038	2201	2183	2542	2851	2898	2914
Net assets (£ million)	1642	926	947	1132	1681	1542	2228	2306
Solvency ratio (%)	82	45	43	52	66	54	77	79

Source: IUK company report and accounts

MIRE est soutenu par le Fonds social européen, Art. 6 – Actions innovatrices
Les informations contenues dans cette publication n'engagent pas la Commission européenne