

ANTICIPATING & MANAGING RESTRUCTURING IN CYPRUS

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Introduction

- Quantitative & qualitative aspects of restructuring in Cyprus.
- Comparative analysis of major restructuring case-studies:
 - Reasons.
 - Measures.
 - Parties involved.
 - Negotiations.
 - Key-factors.
 - Outcome.
- ➔ **1st Mapping of Restructuring in Cyprus.**

Sources of information

- Comparative Analytical Reports of the European Restructuring Monitor (ERM):
 - Review of daily press.
 - Academic literature.
 - Contacts and interviews with trade unions, employers' organisations and public bodies.

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1. Restructuring in Cyprus (1990-2010).
 2. Restructuring from 2005-2009.
 3. Restructuring during the crisis: current situation & perspectives.
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1. The 1990's experience

The case of the clothing and footwear industries

The case of the clothing & footwear industry

- Limited extent, impact and spatial concentration of restructuring in Cyprus during the last decade.
- The main instance of restructuring in Cyprus, in the context of public dialogue, was that of “mass” relocations in the **clothing and footwear sectors during the 1990s**.
- Loss of comparative advantage occurred from a loss in price competitiveness combined with a lack of **structural competitiveness**.
- Relocation of production to Eastern European and Middle Eastern countries.
- Businesses and public authorities, did not put any serious effort into seeking alternative competitive strategies based on quality, innovation and productivity.
- Rapid economic growth fostered job creation in the tertiary sector (e.g. tourist industry).

2. Restructuring during the “pre-crisis” period

2005-2009

Some major cases of restructuring during the last 5-year period

- 2004 **Refinery of Cyprus** (petroleum products sector).
- 2004-2006 **Cyprus Airways** (national airline company).
- 2005 **Arab Bank** (banking industry).
- 2006 **British American Tobacco** (tobacco industry).
- 2008 **Larnaca & Lemessos Ports** (port services).
- 2009 **Kofinou municipal slaughterhouse** (under development).
- Big cases do not give the “**whole image**” of restructuring in the Cyprus economy due to the importance of SMEs and micro-enterprises.
- Public announcements do not include “*silent restructurings*” which seem however to have been rather limited due to nearly full employment conditions.

2.1 Brief presentation of restructuring cases

Cyprus Airways

British American Tobacco

Cyprus Airways (2004-2006)

- **Reasons:**
Serious economic problems due to changes in the competitive environment (i.e. liberalisation, E.U competition rules).
- **Parties involved:**
Joint ministerial committee, Management, Trade Unions, European Commission.
- **Measures:**
Rescue Plan & Restructuring Plan.
- **Negotiations:**
Complex and tight negotiations in a new institutional environment after Cyprus' adhesion to the E.U.
- **Key-factors:**
Intervention of the government (loan guarantee), mediation of the Ministry of Labour, social dialogue.
- **Outcome:**
(+/-) 400 persons lost their job. However, additional compensations above that provided for by the law. The company remained viable and competitive saving thus hundreds of other jobs **BUT...**
- **New Developments:**
 - New financial difficulties in 2009 and in 2010 (Eur 25 million loss/1st semester).
 - Combined with problems of Eurocypria.
 - Merger between the 2 companies is considered (Mid-November).
 - **Voluntary exit plan is under discussion for both companies...**

British American Tobacco (2006)

- **Reasons:**
Competitiveness / Global restructuring plan
- **Parties involved:**
Management, Trade Unions
- **Measures:**
Redundancy of (+-) 100 persons (production line).
- **Negotiations:**
Structured & innovative restructuring plan with both **active** and **passive** measures. Efforts to anticipate restructuring (economic study).
- **Key-factors:**
Corporate Social Responsibility policy of a multinational company.
- **Result:**
 - Substantial higher compensations and very favorable terms.
 - Job support measure provided by the company.
- **Remarks:**
 - Analysis of the restructuring reveal some crucial developments concerning word economy during the 1990-2008 area.
 - Global restructuring as a effort to rise profitability
- ➔ **Impact on employment of financial globalisation (financialisation)...**

2.2 Main conclusions from the recent “pre-crisis” experience

Anticipating or managing the impact?

- In more than half of the case studies, measures both for **anticipating** and **managing** restructuring.
- **Anticipating:**
 - Redundancies for ensuring economic viability of companies (Cyprus Airways, Arab Bank, Lemessos & Larnaca Ports, BAT).
- **Managing:**
 - In general terms, managing measures are “passive” (additional compensations).
 - Main aspiration of workers due to high GDP growth and positive employment perspectives.

Parties involved in restructuring procedures

- Management & Trade Unions were the main actors in negotiations.
- Nevertheless, in the majority of the large restructuring cases, public authorities had a direct or indirect involvement due to:
 - **Ownership of the firm** (Cyprus Airways, Kofinou Slaughterhouse, Ports).
 - **Confrontational characteristics of negotiations** (Arab Bank, Airground services of Cyprus Airways).
 - **Seriousness** in term of employment of bankruptcy (*Cyprus Airways, Kofinou Slaughterhouse*).
 - **Strategic importance** of some business activities (e.g. Cyprus Airways for tourism industry).

Reasons

- In almost all cases, restructuring aimed at enhancing competitiveness:
 - Changes in the market structure caused serious financial problems to former monopolistic companies (liberalisation).
 - Global corporate strategies aiming at improving profitability ratios “in an age of financialisation”.
 - Restructuring has also been in some cases the result of other factors such as drastic evolutions in environmental rules due to the adherence to the E.U (e.g Refinery of Cyprus) or industrial change (mergers of cement companies).

Main measures

- In almost all cases, the main measure was the reduction of employment.
- Differentiation between private and public companies.
- Voluntary exit and early retirement plans applied in state-owned firms.
- In several cases, the government displayed a key-role in the outcome of the restructuring and the safeguard of jobs, by providing guarantees on loans **or** by funding the cost of the social plan.

Labour disputes

- Labour disputes in less than half of the cases.
- Negotiations in other cases were carried out under amicable conditions.
- Strike action in only a a small number of cases.

Key-factors (I)

- The quality of the industrial relations system in Cyprus contributed to the favorable outcome of negotiations between employees & employers.
 - The Cypriot system of social dialogue creates a climate of trust, allowing the social partners to intervene and take joint decisions on issues of decisive importance (Soumeli, 2006).
 - Due to the decentralised structure of the collective bargaining system, many of the collective labour agreements are concluded at enterprise level.
 - Agreements are more easily concluded because trade union representatives and employers maintain closer and more "harmonious" relations.
- This includes also negotiations during restructuring.

Key-factors (II)

- Quality of social dialogue in Cyprus can be seen as a fundamental “intangible” asset with a particularly beneficial effect on the various relationships between workers, businesses and public authorities.
 - Part of the local "**social capital**":
 - According to Pierre Bourdieu,
*“the sum of actual or potential resources arising from the existence of a **viable network** of more or less institutionalised relationships of **mutual recognition and respect**”.*
 - In the same line, the American researcher Robert Putnam, defines social capital as
*“features of social organization such as trust, norms and networks that are **able to improve the efficiency of society by facilitating coordinated actions**“.*
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Key-Factor (III)

- When bipartite negotiations led to an impasse, the Cypriot state has demonstrated its ability to guide the conflicting sides to a mutually acceptable solution.
- The Mediation Service of the Ministry of Labour has played a decisive role in helping complex labour disputes to be resolved.
- Intervention by government authorities was sometimes crucial, mainly under the form of financial contributions, especially when achieving immediate solutions was a matter of urgency for economic or general interest reasons.

Outcome

- In most cases, workers received **higher compensations** than provided for by law.
- Main feature and outcome of restructuring in Cyprus.
- Possible explanation for the absence of active measures specifically designed for redundancy:
 - Nearly full employment conditions.
 - Limited impact of restructuring have dissuaded public authorities or social partners to seek more systematic ways of dealing with their effects.
- **However, the impact of the international crisis seems to heighten among social partners and policy makers a sense of necessity for developing such measures.**

3. Crisis & Restructuring

The crisis as a “source of innovation”

Government level

- Special Action Plan for anticipating and managing restructuring and unemployment from the Human Resources Development Authority:
 - Funding of training for enterprises facing difficulties to maintain their staff due to the crisis.
 - Two special schemes which provides economic support for firms hiring young unemployed persons.
 - “Emergency” training scheme for employees which have lost their job in order to facilitate their inclusion in the labour market.

Companies level

- Measures to anticipate restructuring into two companies (Muskita - Alco).
- **Reasons:**
Reduced demand from export markets (mainly UK).
- **Measures:**
Temporary reduction in hours of work.

Social partners level

- A series of proposals from employers and unions on the prevention and management of unemployment:
 - Use of reserve Redundancy Fund to cover the employer contributions upon hiring employees which lost their job.
 - Proposals for the modernisation of the Termination of Employment Law.
 - Speed policies to increase productivity.

Conclusions

- Reduced number, impact and spatial concentration of restructuring due to conditions of high economic growth.
- Absence of specific measures and tools for prevention and management restructuring.
- Social and economic impact of restructuring was leveled:
 - High GDP growth.
 - Low unemployment and labour shortages.
 - Quality of labour relations system.
 - Some valuable existing schemes such as the redundancy fund.
- Current crisis, despite its relatively limited impact on the Cypriot economy promotes the introduction of new measures to tackle unemployment and redundancies (i.e *Special Action Plan*)
- **Opportunity for the introduction of more composite and systematic measures for both the prevention and management of restructuring.**

More information on A.R.E.N.A.S
website.

“National Background Paper for the
Republic of Cyprus”.
