

Does Information and Consultation Process Help to Preserve Employment? A Research Note

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When an employer decides to downsize in France, he has to implement an *employment preservation plan*. This procedure aims to limit the number of redundancies and to promote the redeployment of laid-off employees. The main features of this procedure are:

- The obligation to inform and consult the work council over the project. The employer has no obligation to negotiate with unions in the sense that there is no obligation to reach an agreement but must convene the work council and justify the proposed downsizing.
- This consultation is organized in two steps. The first round is dedicated to economic decision in order to determine the number of jobs to be suppressed. The second round concerns the modalities of implementation such as the method to select employees who should leave, the severance pay or the redeployment device.

Figure 1. *Employment Preservation Plan* process

Downsizing announcement	Information and Consultation of the work council		Downsizing implementation
	<i>Number of layoffs</i>	<i>Support measures</i>	

During the discussion of economic decision, employer and employee representatives are expected to examine all alternatives to layoffs. Employee representatives can specifically propose alternatives that the employer has to reply formally. Several types of alternatives are classically observed:

- Employee representatives could challenge the industrial or strategic decision: Maintenance of activities the employer planned to stop, new business creation, diversification or revaluation of redundancy in regard to new informations revealed during the discussion.
- Alternatives can also be expressed in terms of alternative ways to reduce the demand for labor. The reduction of working time is a popular mean to save jobs, particularly when difficulties are cyclical. This solution can be supported by public programs such as partial unemployment.
- Employee representatives sometimes suggest to organize layoffs in successive downsizings in order to give time both to employees who can prepare redeployment and to employer who can study alternative strategies.

1- Theoretical Background

One can easily argue in favor of a beneficial effect of information and consultation process on employment preservation admitting that the decision to downsize is not strictly determined by economic factors. Several ways are available for firms to adjust labor demand and the choice between them depends on environment's preferences, particularly those of employee representatives. If we then assume that these preferences are not immediately known by decision makers, the information and consultation process can be seen as an opportunity to reveal them and to adjust decision.

This interpretation is in line with a classic approach in industrial relations represented by Slichter *et. al* (1961). They observed that unions' questions and propositions 'force management to consider the probable consequences of its proposed decision and to adjust those decision accordingly'. By promoting investigation and reflection, labor relations would significantly influence managerial decision. For Verma (2005), 'such questioning sets up a dialectic, otherwise absent from managerial deliberations, which leads to better, more creative, and, hence, more productive solutions'.

However, empirical observations in the French context lead us to a more pessimistic conclusion. Studies largely highlight difficulties encountered by management and employee representatives to engage an effective discussion over economic decisions and their consequences on employment. Colin and Rouyer (1996), for example, showed the limits of law in front of managerial rationalities. Two types of argument are proposed:

A first set of observations indicates that employee representatives are not systematically involved in the information and consultation process. In some cases, employee representatives refuse this discussion for fear of being associated with a decision they do not accept (Desseigne, 2003). In consequence, an adversarial strategy is sometimes preferred to that of a rational discussion. Beaujolin *et. al* (2006) stress the weakness of employee representatives which face a triple asymmetry. Less prepared and less powerful than managers, they also have fewer resources to build a questioning and an alternative to managerial decision. These observations lead us to our first hypothesis.

Hypothesis 1. The proposition of alternatives to layoffs by employee representatives negatively impacts the number of layoffs.
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A second set of observations involves the irreversibility of layoff decisions. Firstly, information and consultation obligation acts as an incentive for manager to explore alternatives before to engage the discussion. Since the adjustment of the decision is costly, managers could anticipate in order to limit the confrontation. More fundamentally, it should be noted that the level of information and consultation does not necessarily correspond to the level of decision. In some cases, the management representative has no authority to change the economic decision and its main function is to explain it to the representatives. This is particularly true in the case of subsidiary of a foreign group.

Hypothesis 2. The information and consultation process does not impact the number of layoffs when the decision center is far away.
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In the same vein, a number of downsizings cannot be isolated because they are really part of the continuity of previous downsizing. They are only the implementation of a past decision that is unlikely to evolve.

Hypothesis 3. The information and consultation process does not impact the number of layoffs when it is part of successive downsizings.

2- Methodology

To test our hypothesis, we sent a questionnaire to economic experts who participated to downsizings as consultants for work council. Their role was to help employee representatives to analyze the decision and, eventually, to build alternatives. Finally, the database represents 128 downsizing operations between September 2008 and November 2009. In half of these cases, respondents knew the firm for many years before the downsizing.

Explained variable: Employment Preservation.

The research aims to empirically investigate the factors that increase the likelihood of information and consultation process to reduce the number of layoffs. In this perspective, we rely on an indicator measuring the employment preservation. The questionnaire respondents were asked to indicate the number of job cuts planned in the initial downsizing plan and the number of effective job cuts in the final draft. The difference between the two amounts thus allows to estimate the number of jobs that were saved during the consultation process. It is then possible to establish a ratio of employment preservation:

$$\%JobCuts\ Reduction = \frac{Job\ cuts\ in\ final\ Plan - Job\ cuts\ in\ initial\ Plan}{Job\ cuts\ in\ initial\ Plan}$$

Since our point is less employment preservation intensity than employment preservation occurrence, we coded employment preservation as a dichotomic variable that takes a value of 1 when the ratio is superior to 10% and 0 otherwise.

$$\begin{aligned} EmplPres &= 1\ if\ \%JobCuts\ Reduction > 10\% \\ EmplPres &= 0\ if\ \%JobCuts\ Reduction \leq 10\% \end{aligned}$$

As indicated in the table 2, the mean percentage of saved jobs is 13% for the whole sample. It also indicates that in 30,5% of all downsizings, the number of planned job cuts decreased significantly.

Control variables

The control variables included in the regression models relate to any size, industry and downsizing type effects. One can reasonably argue that the ability of employees' representatives to limit the number of job cuts also depends on the objectives underlying the downsizing project. This is the reason why, basing on the part of the questionnaire concerning economics rationales of the downsizing plan, we broke down downsizing types into three categories: numeric operations related to a decrease in the level of business activity, those associated with a business process reorganization and those related to a relocation project. Table 1 below shows that the third category listed has the most discriminatory power with regard to the impact on employment preservation. When downsizing plans are related to a relocation project a substantial decrease in the number of layoffs (ie where %jobcuts-decrease > 10) can be observed in 10% of cases, whereas when downsizing plans are not

related to a relocation project a substantial decrease in the number of layoffs can be observed in 37% of the observations. Likewise, results show a wide discrepancy with regard to the percentage of layoffs reduction during the information and consultation process. Thus, the percentage of job cuts reduction is 5,47% for downsizing plans related to a relocation project, while this percentage equals 15,30% in other cases. In addition, contrary to what happens when the same test is applied to the two other categories, an independent group t-test allow to conclude that the difference in means is statistically significantly different from 0 (at the 10% level). This is the reason why we decided to focus on this category and to use the related dichotomous variable as our control variable for downsizing type.

It is likely that the apparently negative impact of the variable “downsizing plan related to a relocation project” has its origin in the less adjustable and flexible nature of such downsizing plans, which reduces the possibilities of a fine-tuned discussion about the parameters of the economic decision. This is especially so when the relocation project goes along with an intent of shutting down a plant or abandoning an activity on the French territory. In this context, the number of job cuts corresponds almost mechanically to the current staffing of the threatened unit in France. This leaves less room for adjusting the economic decision as the only alternative is often to renounce to the whole project.

Table 1. Mean comparison tests related to the impact on the percentage of job cuts reduction of the goals underlying the downsizing

		N	<i>EmplPres =1</i> Number of occurrences	<i>%JobCuts Reduction</i> Mean value	t	sign
Relocation	0	98	36 (37%)	15,30	1,951	0,053*
	1	30	3 (10%)	5,47		
Numeric Downsizing	0	58	14 (24%)	9,46	-1,498	0,137
	1	70	25 (36%)	15,93		
Business process reorganization	0	100	28 (28%)	12,79	-0,199	0,843
	1	28	11 (39%)	13,75		

* significant at $p < 0.10$; ** significant at $p < 0.005$; *** significant at $p < 0.01$

Independent variables

- Propositions of alternatives to layoffs by employee representatives

A first goal of this research was to investigate whether a relationship can be found between employment preservation and the propositions of alternatives to layoffs by employee representatives. An item in the questionnaire aimed specifically at determining whether alternatives to layoffs had been proposed and in case of a positive response the respondents were invited to specify the kind of propositions formulated. Propositions of alternatives to layoffs, when they exist, have a legal status since they take place within the “reasoned opinion” (*avis motivé* in French jurisdictional language) that must be issued by the work council and to which the employer is requested to consider and reply with reasoned arguments.

Table 2. descriptive statistics related the percentage of job cuts reduction

	Full sample (N=128)	No alternative to layoffs proposed (N=60)	Alternative to layoffs proposed (N=68)
Mean value % <i>JobCuts Reduction</i>	13,00	8,64	16,84
Frequency			
<i>EmplPres = 0</i>	89 (69,5%)	51 (85%)	38 (55,9%)
<i>EmplPres = 1</i>	39 (30,5%)	9 (15%)	30 (44,1%)

Table 2 gives a first overview of the relationship between alternatives to layoffs and employment preservation. Alternative to layoffs were proposed in just over half the cases (68 observations, 53% of the sample). Where alternatives to layoffs are formulated, the average percentage of jobs saved is equal to 16.84% and the 10% threshold is reached in just over 44% of cases (30 of 68 observations). In contrast, concerning the 60 cases where no alternative to layoffs is formulated, the average percentage of jobs saved is just 8.64% and the 10% threshold is reached in only 15% of cases.

These descriptive data thus suggest a clear relationship between alternative to layoffs and employment preservation. Nevertheless, in view of the fact the 10% threshold is reached in 15% of cases characterized by a lack of alternatives to layoffs (9 of 60 observations), it is also noteworthy that the existence of proposed alternative is not a necessary condition to protect jobs.

Table 3. Mean comparison tests

		N	% <i>JobCuts Reduction</i> >10% Number of occurrences	% <i>JobCuts Reduction</i> Mean value	t	sign
Alternatives to layoffs proposed	0	60	9 (15%)	8,64	-1,915	0,058*
	1	75	30 (40%)	16,84		
Distance from decision center	0	53	22 (41%)	19,07	2,409	0,017**
	1	75	17 (22,5%)	8,70		
Successive downsizing	0	93	35 (42%)	16,19	2,456	0,015**
	1	35	4 (11,5%)	4,52		

* significant at $p < 0.10$; ** significant at $p < 0.005$; *** significant at $p < 0.01$

- *Distance from the decision-making center*: Whether or not the downsizing plan takes place in a subsidiary of a foreign group is used as an indicator of the degree of distance from the decision-making centers.

- *Successive downsizing plan*: The existence of a previous downsizing is used as a proxy to identify plans that are part of a successive downsizing process. To ensure that there is some continuity between the sample plans and those that preceded them, it takes the value of 1 when the previous plan took place less than three years before the current one, and 0 otherwise.

3- Results

In order to assess the impact of the independent variables on the probability that the information and consultation process leads to a substantial level of employment preservation (ie EmplPres =1), logistic models were used, given that the dependent variable was specified as a binary one.

Table 4 reports the results for each of the four models tested. In the models 1 to 3, each of the three explanatory variables is introduced separately into a basic model containing control variables. In Model 4, the three independent variables are introduced simultaneously.

We report odds ratios to allow easier interpretation of the magnitude of effects. An odds ratio greater than one thus indicates the likelihood that an event will occur increases with a one-unit increase in the independent variable. Inversely, an odds ratio less than one indicates the likelihood that an event will occur decreases with a one-unit increase in the independent variable.

Table 4. Logistic regression models

variables	Model 1 : control variables + alternatives to layoffs		Model 2 : control variables + subsidiary of a foreign group		Model 3 : control variables + successive downsizing		Model 4 : control variables + 3 tested explanatory variables	
	Coef (sig.)	Exp (B)	Coef (sig.)	Exp (B)	Coef (sig.)	Exp (B)	Coef (sig.)	Exp (B)
Industry	<i>not reported</i>		<i>not reported</i>		<i>not reported</i>		<i>not reported</i>	
Size	0,335 (0,122)	1,398	0,289 (0,147)	1,335	0,405 (0,057*)	1,499	0,474 (0,040**)	1,606
Relocation	-2,617 (0,000***)	0,073	-1,998 (0,005***)	0,136	-1,898 (0,008***)	0,150	-2,281 (0,004***)	0,102
Alternatives to layoffs	1,988 (0,000***)	7,303					1,824 (0,001***)	6,197
Distance from decision center			-0,0944 (0,041**)	0,389			-0,903 (0,073*)	0,405
Successive downsizing					-1,820 (0,008***)	0,162	-1,395 (0,059*)	0,248
Constant	-1,962 (0,012**)	0,219	-0,555 (0,387)	0,574	-1,820 (0,110)	0,355	-1,789 (0,025**)	0,167
-2 log-likelihood	115,711		129,243		125,304		108,340	
Chi-square (df)	41,673 (12)		28,141 (12)		32,081 (12)		49,045 (14)	
Nagelkerke R-square	0,393		0,279		0,313		0,450	

* significant at $p < 0.10$; ** significant at $p < 0.005$; *** significant at $p < 0.01$

Overall, the results corroborate our three main hypotheses. Proposition of alternatives to layoffs appears as a strong factor influencing positively the probability of employment preservation. As can be seen in Model 1, propositions of alternatives to layoffs multiply by 7 the chances of reaching the job cuts reduction 10% threshold [Exp (B) = 7,303; $p < 0,001$]. In contrast, results show that the probability of employment preservation is very negatively impacted by the fact that the company is a subsidiary of a foreign group and by the fact that a

similar operation already occurred in the tree previous year (Model 2). Thus, the foreign group subsidiary status, when the related variable is introduced separately, decreases by 61% the chances of reaching the job cuts reduction 10% threshold [Exp (B) = 0,389; p = 0.041]. As for the fact that a downsizing operation already occurred in the three previous years (Model 3), it induces an almost 85% decrease in the chances of obtaining employment preservation [Exp (B) = 0,162 ; p = 0,008]. The posited hypotheses are also corroborated by the results of Model 4, in which all three independent variables are simultaneously included.

Our results thus highlight the positive effect of proposition of alternatives to layoffs on employment preservation but they also point to the importance of the context in which the information and consultation process takes place. The likelihood of employment preservation is notably reduced by remoteness of the decision-making centers. This is due to the fact that in this situation employee representatives don't interact directly with the relevant decision-makers, which curtails their ability to bring about a substantial change in the projected plan. Likewise, a higher degree of irreversibility seems to characterize the operations that take place in a successive downsizing process.

Conclusion

Before summarizing our main results, it is useful to note that our research is not exempt from some limitations. A first one relates to the data used in this study. The small sample size and the use of dichotomous variables limit the generalizability of the results along with the methodological possibilities. It should also be recalled that the downsizing plans in our sample took place against the backdrop of the 2008-2009 economic crisis. This may have had an impact on the negotiability of the economic component of the plans in discussion, even if the way by which this may have impacted employment preservation is unclear. On the one hand, the weak economic outlook reduced the credibility of alternative solutions based on investments in a new business activity. On the other hand, employee representatives were in a position to emphasize the cyclical nature of the company's difficulties and to insist on the opportunity to protect jobs in preparation for the economic recovery.

These limitations being stressed, it is possible to bring out three mains contributions of our research:

- The propositions of alternatives to layoffs by employee representatives have a positive effect on the probability of saving jobs between the beginning and the end of the information and consultation process.
- A number of contextual factors limit the possibility of saving jobs. Our research more specifically highlights the negative impact of the remoteness of decision-making centers and the fact that the restructuring is part of a multi-restructuring process.
- The proposition of alternatives to layoffs by employee representatives is not a necessary condition for obtaining employment preservation. In some cases, the number of job cuts is lowered event if no alternative was proposed by employee's representatives. This may reflect the fact that the information and consultation process is spread over a relatively long period during which the economic situation may vary and during which a reduced uncertainty may lead to an adjustment of the decision. Moreover, the absence of alternatives proposals doesn't mean an absence of economic discussion in that sense that employee representatives may agree on the principles of the restructuring project while discussing the parameters.

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