Social Dialogue as a Supporting Mechanism for Restructuring Processes

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Abstract

This paper analyzes the impact of social dialogue on the restructuring process in the Polish steel industry, using the history of restructuring in the same sector in the United Kingdom as a frame of reference. Despite steep declines in employment, due to technological, organisational, and ownership changes in the sector, restructuring in Poland did not encounter particularly strong resistance on the part of organised labour, in contrast to the powerful union response seen in the UK. The difference is attributed to the presence of active social dialogue at the sectoral level in Poland and the absence of such dialogue in the UK.

Introduction

In 2009 Eurofound – the European Foundation for the Improvement of Living and Working Conditions published a report entitled Representativeness of the European social partners organizations: Steel industry by Franz Taxler, which was devoted mainly to the issues of social dialogue in the steel industry in individual countries of the united Europe. In case of Poland, the social aspect of this process was stressed with emphasis kept on the large-scale changes in the number of people employed,

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as over a span of 15 years, i.e. from 1991 to 2006 (when the restructuring process of the steel sector had officially ended), the employment in the industry decreased from 123,000 to 30,000, that is, by more than 80 per cent (see figure 1) (Towalski 2009).

![Figure 1. Number of employees at the end of year (in thousands)](source)

There may be many examples of other countries which also pursued restructuring programmes that affected similar or greater number of employees, nevertheless the characteristic feature that distinguishes Poland from those other countries is the undeniably peaceful pattern of restructuring.

One might have expected that such massive layoffs would surely lead to protests and demonstrations of the sector’s employees. Why, therefore, in Poland, in the country where the traditions of consensus in the world of work and capital are notably less established than in corporatist West European countries such as Germany, the radical restructuring project ‘managed’ to be implemented successfully in the atmosphere of relatively peaceful social moods? In the United Kingdom, when at the end of 1979 the state-owned concern British Steel Corporation announced that within a year 52,000 employees were forced to be made redundant, lengthy negotiations took place in order to accommodate the strike.

In the article two countries, Poland and the United Kingdom, which both experienced a restructuring in the steel industry are compared. Apart from the fact that the steel sector plays an important economic role in both countries, it is worth remembering that many restructuring phases in those countries took a similar shape. Such features as nationalizations, privatizations, restructuring in employment, attempts of cooperation between management boards or long-term plans of sector’s
restructuring are common to the steel industries both in Poland and in the United Kingdom.

1. Restructuring Projects in Poland and the UK

In general, restructuring is a process of changes triggered by external and environmental signals that are crucial for the company's development (in this case, the industry’s) which aims at creating a competitive company (here, a competitive industry). The objectives of this process are adjustments in terms of organisation, production, economy and technology, as well as change of the legal and ownership status of a company (in this case, of enterprises in the industry) (Lachiewicz, Zakrzewska-Bielawska 2005: 13).

Both in Poland and in the United Kingdom, we can say that deep restructuring of the industry took place and it was a result of the ineffectiveness of the nationalized iron and steel industry.

The main difference is the scale of this process. In a smuch as in the United Kingdom the restructuring process was boiled down to one entity – British Steel Corporation – which was playing a similar role in the British metal smelting industry that the Accellor Mittal concern currently plays in Poland, this process in Poland included 24 enterprises. Moreover, the periods of time in which the restructuring projects were to be implemented were unlike.

In Poland the beginning of the transition period was connected with the collapse of the metal processing industry, which was then functioning as an association of enterprises. And the state, which was still remaining an owner, had completely abandoned its former role, without even trying to monitor these transformations (Towalski 2003: 125). The crisis that affected the industries in 1990 forced the enterprises to undertake adaptation action independently. The key challenge was the technological and organisational adaptation of companies, which was obviously related to the reduction of excessive employment. Since in many cases these redundancies included entities functioning in regions and towns which were particularly threatened by high unemployment, the decision was made to appropriate central and assistance resources for employment restructuring and protection measures.
The systematic and coordinated restructuring began in 1992 with the adoption of the *Study of restructuring of the steel and metallurgy industries in Poland to 2002*, which was compiled with the help of foreign experts and where the authors concluded that after suitable transformations, the Polish metal processing industry may become a sector that is thoroughly competitive on the international market.

Despite the fact that a year later the schedule of the programme implementation was developed and, in the presence of the Council of Ministers, the means of financing the restructuring processes were established, the works on deploying the systemic restructuring were suspended until 1997. It was not sooner than December 1997 when the Polish government and the European Commission agreed it was necessary to update and implement a coherent and complete restructuring programme for the metal and steel industries until 2005 as well as to identify the strategic objectives which are to be met before 2010.

However, the programme started in 1998 did not produce the expected results. The sector’s deteriorating situation and the world’s economic crisis forced the government to update this programme as early as two years after its start (Towalski 2001: 100).

Finally, in 2002 the *Restructuring Program for the Polish Iron and Steel Industry – Update 2002* was adopted, defining emergency short-term goals for the years 2002–2003, an action plan up to 2005, and strategic objectives up to 2010.

### Table 1. The objectives and tasks of the Iron and Steel Industry Restructuring Plan from 2002

<table>
<thead>
<tr>
<th>Short-term objectives</th>
<th>Action plan and strategy directions</th>
</tr>
</thead>
<tbody>
<tr>
<td>– improvement of the financial situation</td>
<td>– implementation of the investment plan</td>
</tr>
<tr>
<td>– sector’s consolidation by creating the Polskie Huty Stali SA (PHS SA) holding</td>
<td>– continuation of financial restructuring</td>
</tr>
<tr>
<td>– restructuring of manpower concerning 3 thousand employees.</td>
<td>– completion of privatization by involving the international investors from the industry</td>
</tr>
<tr>
<td></td>
<td>– further restructuring of manpower</td>
</tr>
</tbody>
</table>


The restructuring programme officially came to an end in December 2005. During that time practically the entire iron and steel industry had been privatized and the manpower was radically reduced. Furthermore, the positive results of financial restructuring are also often emphasized1.

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1 The effects of financial restructuring are described in more detail by A. Kulpa-Ogdowska (2006: 105–107).
The analysis of the available publications allows to assume that the restructuring process of the iron and steel industry in Poland, despite numerous modifications and problems, followed a clearly defined logic of the sector’s complete privatization and the adjustment of production capacity to the market’s needs.

The study of the papers published on the transformation in the steel processing sector in the United Kingdom leaves the reader with a quite different impression. It all began similarly though. After the war is was decided to nationalize the steel industry in both countries.

Between 1945–1951, when the ‘reign of power’ was wielded by the Labour Party, they managed to nationalize those industries that were perceived as crucial for the development of the country, including the steel processing industry (Hyman 1995: 134). A year before the end of the Labour term in office, the *Iron and Steel Corporation of Great Britain* was established (Richardson, Dudley 1987: 311). From the very moment when the Conservatives came to power and up to 1988 when the *British Steel* shares hit the stock market, the path of transformations in the steel and iron sector reminds a rollercoaster ride, whose breakthroughs are marked by successive privatizations and nationalizations.

As already mentioned, in 1951 the Conservative Party came to power in United Kingdom with an intention to re-privatise steel industry. In order to achieve that goal, in 1953 the Tory government adjourned the Nationalisation Act and introduced the Industry Denationalization Act. It was the *Iron and Steel Holdings and Realisation Agency* which was assigned to deal with coordination of the sector’s privatisation and the *Iron and Steel Board* became responsible for the control over this process. Strong politicization of the privatisation process resulted in deteriorating financial performance of the sector as well as decline in the investment level and technological development (Ricgardson, Dudley 1987: 313).

In 1964, the Labour Party returned to office with a commitment to fix the situation in the sector through re-nationalization. In March 1967, the *Iron and Steel Act* came into force whereby the state became the owner of 90 per cent of the manufacturing facilities in the industry. A few months later, the *British Steel Corporation (BSC)* was created on the basis of 14 mills and 200 cooperating facilities (*History of British Steel*). Since then the discussions on the British iron and steel industry were basically pertaining to the BSC holding.

It was in May 1972 when the Minister of Industry Tom Boardman presented the plan for modernisation and development of *British Steel Corporation*. It was confirmed in the document *Steel. British Steel Corporation; Ten Years Development Strategy* which introduced the project of organisational changes that included, among others,
the manpower restructuring that would lead to further technological development and the increase of production in the holding. It will not be an exaggeration to treat this document as a long-term restructuring programme for iron and steel making industry.

Meanwhile, in October 1979, the European Community adopted the Davignon Plan – a steel industry restructuring project. It was calling for the reduction of excess capacity in order to deal with the crisis in the European steel industry. Furthermore, the plan established the minimal prices and production limits as well as to enter into agreements with several countries to reduce some part of the steel products import (The Davignon plan for Europe’s steel).

For the holding that was mired down in the slow restructuring, the acknowledgement of the Davignon Plan’s measures appeared to be a great challenge, as BSC was forced to undertake radical modernisation actions, mainly concerned with the decentralisation and limitation of business, thus followed with radical personnel policy.

The Conservative Party government chosen in 1979, in turn, interpreted the Davignon Plan as a signal to begin the privatisation of the holding (Richardson, Dudley 1987: 347–348)). This intention, timidly expressed at the beginning, became the destination of the British Steel Corporation and its privatisation plan was formally announced in 1987.

2. Layoffs and Social Unrest

It is not difficult to notice that almost every restructuring process, no matter if in micro scale or in relation to whole industries, always arouses a great deal of emotions in terms of employment problems. The phrase ‘layoffs’ in the title of this chapter is used purposely instead of ‘manpower restructuring’, as I believe they are synonymous. The restructuring experiences, and not only in Poland, show that when there is a talk about manpower or employment restructuring then with almost 100 per cent certainty one may assume that reductions will take place.

In both countries the restructuring of iron and steel resulted in massive layoffs of thousands of employees.
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Dismissals in Poland

The reduction of employment was taken as one of the priorities of the iron and steel making industry restructuring in Poland. The layoffs were justified by the following reasons:

– the need to adjust the scale and structure of employment to the level of production resulting from the market demand,
– the need to simplify the organisational structure of mills,
– allocation and emancipation of complementary and service facilities,
– withdrawal from the social functions of mills (Towalski 2001: 90).

The workforce reduction proceeded with variable dynamics. In the first stage, i.e. in years 1992–1998 almost 45 thousand employees left the mills. In most of the cases there were voluntary terminations, then next were transfers to partnership enterprises, social or early retirement benefits.

In early 1999 the Steelmakers’ Social Package (HPS) was signed; it was an agreement on the conditions of social protection throughout the restructuring process of steel industry with the absorption of state budget means and assistance resources from the European Union.

The implementation of this package became a symbol of the further reductions in employment. In the course of the next three years, i.e. until the end of 2001 the steel works were left by about 41 thousand employees. This means that of the 78 thousand employed in the industry at the end of 1998 only less than 31 thousand were left at the end of 2001.

Initially, it was assumed that the basic mechanism of employment reduction in the restructured industries will be transfers to the specified partnerships (see figure 2).

Undoubtedly HPS had protective function and was to ensure the minimal economical safety to the mills’ employees that were made redundant. They were particularly often taking an advantage of the opportunity to take an early retirement.

From 2004, in accordance with the European Commission’s provisions, the support from the public means in terms of employment restructuring could only apply to active forms of aid, which meant that HPS had drained all its possibilities.

\[2\text{ In years 1990–1991 the employment in iron and steel industries decreased by almost 30 thousand employees.}\]
Therefore, a new document was adapted to settle all regulations on the employees’ terminations – *Activation Packet for the Metal Smelting Industry (HPA)* which, contrary to HPS, concentrated mainly on active forms of aid, only partially funded by the state. According to the accepted logic it is the owners of steel mills that were supposed to provide an all-around service to the dismissed employees, aimed especially at finding new jobs. Although the HPA project guaranteed a spectrum of privileges for the employers from outside the industry who were willing to hire the steel mill workers, the interest in the project in such a form was scarce. In most cases, with the help of own resources, severance pay programmes were developed, like in case of Mittal Steel Poland where thanks to negotiations between the management board and trade union, the rate of payoffs was established for the employees who decided to leave their job voluntarily.

As a result of the industry’s transformations, at the end of 2005 employment decreased to almost 30 thousand people. In spite of those radical changes in the manpower levels, no serious protests took place, not counting the first half of 1990 when the industry faced a wave of strikes. It is confirmed by the research conducted under the guidance of professor Leszek Gilejko in years 2001–2002 in the iron and steel industry. The collected questionnaires that were aimed at management boards...
and trade unions of the industry show that throughout the year 1990 forty percent of them had experienced protests. Nevertheless, all these strikes took place before 1995, so before the beginning of the restructuring process (Towalski 2003: 138). What is interesting, people who protested repeatedly had listed among their claims demands for the government to take restructuring actions\(^3\). Since the very start of the restructuring programme’ implementation, the strike moods in the steel sector had clearly weakened.

**Employment Restructuring in United Kingdom**

Modernisation of metal smelting industry in the United Kingdom proceeded in a much more tense atmosphere. Among the largest protest of the workers in this country in the years 1971–1994 was the great strike of steel workers in 1980 (Towalski 2001: 103). Despite numerous problems and transformations that the metal smelting industry underwent in the post-war period, there was no other such a serious conflict like in 1980\(^4\).

It was the restructuring programme in the iron and steel industry that caused strikes, unlike in Poland, where the strikes implicitly induced the coordinated restructuring project.

In 1973 the BSC ten-years-plan was announced, and it was declared that about 20 thousand employees would have to be made redundant due to organisational changes and another 30 thousand – due to the closure of steel mills. Overall it was estimated that in 1980 about 180 thousand people would be able to find employment at BSC (Richardson, Dudley 1987: 330). Unfortunately, in 1979 the performance of the state-owned concern brought huge losses, which prompted the decision to reduce more than 50 thousand jobs within a year (Richardson, Dudley 1987: 343). Roughly in the same time the negotiations on conclusion of the Steel Contract between Iron and Steel Trade Confederation (ISTC) and BSC collapsed.

\(^3\) Such situation, for example, took place in Huta Ostrowiec where in 1992 strike readiness was announced or in T. Sendzimir Huta where in the same year 5 members of the Self-governing Trade Union ‘Solidarity’ went on hunger strike.

\(^4\) In 1926 there were strikes on a similar scale. In the post-war period there were only few short strike actions limited to single companies. These are mentioned, among others, by Richard Hyman (1973).
Despite the information provided in a British Steel History leaflet available at Tata Steel Europe website and the information given by BBC in January 1980, the main cause of strikes were not the steelworkers’ pay demands (1980: Steel workers strike over pay) but the fear of a drastic plan of job layoffs (1980: Steel workers strike over pay). The action began with a one-day-long strike in Corby plant (Northamptonshire) in November 1979 when the decision of closing the mill was announced surprising the mill’s employees who back in 1973 had been assured that Corby plants’ viability would not be not endangered as they had been the main tube-making facility in the country. Six years later the plants were to be shut down. It was a clear signal for trade unions that neither mill’s size nor the profits achieved would secure survival of iron and steel plants (Kelly 1981: 12).

In this circumstance, the industry-level unions announced the general strike. After thirteen hours of protests, steelworkers came back to work as they had been promised almost 70 million pounds, allocated for social shielding.

The following years brought further restrictions in the industry’s employment; in the years 1981–2000 the number of employed in iron smelting declined to 60 thousand people (The Steel Industry and Manufacturing in the UK 2001: 4). Never again had it caused such a violent reaction from the union as in 1980.

3. Social Dialogue as a Mechanism for Mitigation of Restructuring-related Conflicts

It might be argued that ‘abrasive’ progress of smelting industry restructuring in United Kingdom a crucial place belongs to the deficiency of social dialogue.

Restructuring is a process of change and every change is a distraction in homeostasis It is connected with necessary rejection of a current state of affairs and
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replacing it with a developed standard, which can all evoke fear and uncertainty. What often comes along with these feelings are the objectification of employees and informational blockade. Such situation is bound to generate resistance.

Application of social dialogue mechanisms – even in a narrow form – may be factor that supports and mitigates the negative consequence of restructuring. However, it requires the company’s board to apply a cooperation-oriented model of management (Ruszkowski 2004: 162), and the trade union to implement participation strategies.

In case of BSC, both elements were missing. Jonathan Morris, in his work *McJobbing a region industrial restructuring and the widening socio economic divide in Wales*, described the employment restructuring mechanisms used by the managing boards of steel mills at the turn of the 70’s and 80’s, which implies that they generally did not consult their plans with the unions, often putting the crews in a hopeless situation. This happened in Ravenscraig plant in Scotland, where executives announced the need for reorganisation, retraining of staff and adapting the human resources to technological potential and, at the same time, threatened that if the crew and trade unions will not agree to the proposed changes, then there is always a possibility to contract the services from outside. According to the author, the crucial changes in work organisation were introduced against the will of all steel trade unions (Morris 1995: 52). As follows from the already quoted study *Steel Policy in the UK: The politics of Industrial Decline*, lack of consultation mechanisms and limited communication between the management boards and social representatives were a common occurrence in BSC plants (Richardson, Dudley 1987: 327).

It seems that the management strategies in relations with the unions are part of a wider picture of industrial relations in the United Kingdom at that time.

The Tories, led by Margaret Thatcher, recognized the labour market deregulation, promotion of competitiveness, flexibility and value of entrepreneurship, as well as market facilitation of the public sector as the key elements of their political programme. This plan’s success depended on the limitation of the trade unions’ role; therefore, when taking all the decisions on a macro scale, the union’s voice remained

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5 Cooperative leadership is based on social game mechanisms which rules are not rigidly imposed but they are established (sometimes discovered) by the game’s participants and thus they create an instrument that regulates their cooperation. The essence of cooperative leadership is to convince the members of an organisation that the game’s aim is achieving a commonly established goal and at the same time personal benefits, conditioned by participation in the game. In practice, this model requires a skilful use of developed conciliation procedures, aimed at the pursuit of understanding, not confrontation (modes of consultation, negotiation, mediation and freedom of expression).
ignored, while the role of market labour institutions, in which the representatives of the unions seated, was weakened. At the same time, the modifications to labour law were introduced to curb the rights to strike for unions, conditions for starting up a trade union and collective bargaining (Waddington 2000: 578–580).

Concurrently, the government clearly declared that it would like to reduce its interference in the relations between employers and employees to the minimum. Thus in 1980, although the most serious industrial conflict since years took place, it was refusing to involve in the dispute for a long time. That is also why the new body, created during BSC’s restructuring, which could coordinate and supervise its progress, did not involve the representatives of all the stakeholders in the process. However, it is the Labour who could be blamed, as it is them who started the restructuring.

Another noteworthy case is the industry’s unity that apparently was really difficult to achieve due to various circumstances. Along with BSC, private enterprises were operating, able to take over the orders which weakened the bargaining position of ISTC. During the restructuring process, the particularisms of given mill works of British Steel Corporation surfaced very quickly. When it was announced that Port Talbot plants are to be shut down, Bill Sirs, then the president of ISTC, declared the readiness to fight in their defence. Meanwhile, the local trade union activists quickly accepted the severance packages plan for the redundant workers (Kelly 1981: 15). While this thesis may be unjust, I think that in the face of the unpredictability of BSC management actions, the prevailing logic at the individual plants was ‘run for your lives’. As it turned out later, this attitude was infectious: in 1984 during the major miners’ strike, it was none other than Bill Sirs who was blamed for the breakdown of the Triple Alliance of steel workers, miners and railwaymen unions. When it appeared that the Yorkshire miners are to completely stop coal excavation, it was Sirs who famously said: ‘I’m not here to see the iron and steel industry sacrificed on someone else’s altar’ (Gouiffes 2007: 323).

In the Polish smelting industry, the transformations proceeded in a quite different atmosphere. The year 1996 was a symbolic date for industrial relations in metallurgy and smelting as then the Company-wide Collective Bargaining Agreement for Steel Industry Employees was signed. This agreement was negotiated on the forum by the Tripartite Sectoral Committee Committee for Employment Restructuring and Social Protection in the Iron and Steel Industry Restructuring Period. It was one of the first tripartite committees to deal with social effects of restructuring on the industry level; it includes public administration representatives, the five federations of trade unions and the steel industry employers’ association. Until 2007 the committee was dealing with the implementation of steel industry restructuring. At that time many
meetings between the stakeholders took place which resulted in numerous solutions to support the restructuring process and mitigate its social effects. Among these solutions was the already mentioned collective bargaining agreement, but also the Steelmakers Social Package and Activisation Packet for the Metal Smelting Industry. The research carried out during and at the end of restructuring process shows that the experiences of social dialogue had pushed aside the threat of open and violent conflicts (Kulpa-Ogdowska 2006: 121; Towalski 2003: 132). The committee members claimed that long-term experiences created trust between the parties. Anna Kulpa-Ogdowska mentions the words said by one of the union members which I would like to quote here: ‘...we managed to get to know each other, to see that all shareholders had the same intentions: to arrange something useful for this industry. And we saw that we all had the good will...’ (Kulpa-Ogdowska 2006: 132). The committees’s success is based on its constancy and identity built on the pioneering experience. As one of the committee members said: ‘...we were the first committee to ‘try out’ the works related to sector’s restructuring...’ (Towalski 2003: 132).

Although restructuring is completed, the committee remains active and currently deals with problems related to early retirements and the use of EU funds for upgrading the professional skills of the sector’s employees.

The effectiveness of dialogue within the committee was undoubtedly based on the traditions developed on the company level. During restructuring, iron and steel smelting was one of few industries where each company has signed a collective work agreement and the trade unions were representing the vast majority of workers in the sector. One may say that this forced the management boards and public administration to cooperate with the trade unions.

Finally, I would like to broach the subject that will slightly disturb this ‘idyllic’ picture of the Polish steel restructuring and which, from the perspective of particular mills, raised many doubts. They were related to the layoff rates, examples of winding-up and too much dependence on the decision-making process at EU level (Kulpa-Ogdowska 2006: 110–111). The research mentioned above carried out under Leszek Gilejko showed that every third respondent thought that restructuring was done under pressure from the EU and it was beneficial mainly for the EU (see: table 2).
Table 2. Negative effects of the governmental restructuring programmes according to the respondents (in per cent)

<table>
<thead>
<tr>
<th>What are the current negative effects of restructuring government programs? Please choose max. 3–4</th>
<th>Employees</th>
<th>Unionists</th>
<th>Managers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reductions in employment</td>
<td>72.9</td>
<td>100.0</td>
<td>75.0</td>
</tr>
<tr>
<td>Winding-up of plants</td>
<td>49.3</td>
<td>66.7</td>
<td>37.5</td>
</tr>
<tr>
<td>Restructuring is done under pressure from and beneficial for the EU</td>
<td>30.6</td>
<td>28.6</td>
<td>37.5</td>
</tr>
</tbody>
</table>

Source: Kulpa-Ogdowska 2006: 111.

Summary

The comparison of restructuring in Poland and the United Kingdom shows that the social dialogue mechanisms may serve to mitigate conflicts which are inevitable in such processes.

While working on this article, one thought became more and more intrusive – that Hall and Soskice, who in their famous work *Varieties of capitalism* mentioned the advantage of coordinated market economies over the liberal ones, are right. One of the co-ordination features is the presence of institutions that urge the actors to cooperate and create a space for deliberation. Whereas, the key to the industrial development is the cooperation between the actors of the economic scene.

Perhaps it is a far-reaching interpretation but it is difficult not to agree that the appearance of institutions coordinating social dialogue in Polish steel industry helped to reduce social tensions and contributed to acquiescence for transformations in the industry. Meanwhile, the unitary strategies of management boards in BSC have led to a serious conflict which ending was associated with enormous costs.

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