

Labor Restructuring Prior to Private Sector Reform

The Perspective of the Private Investor

Lessons Learned from Successful Transactions

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Agenda

- **Common Traits of Successful International Labor Restructuring Programs**

- **Examples from Successful Privatization Transactions**
 - Manila Water
 - Panama Power
 - MEA
 - Aguas Argentinas

- **Model for Labor Restructuring Program**

Common Traits of Successful International Labor Restructuring Programs

- **Offer attractive early retirement option prior to privatization “incentive to leave” for those employees who:**
 - are close to retirement;
 - don't perceive a future for themselves in the new, privately managed environment;
 - have a strong desire to engage in a new line of activity, made possible by the pay-out.

- **Create a risk free window for employees who decide to “try out”**
 - provides “incentive to stay” for those employees who see a future for themselves in the new environment.

- **Carefully tailor “incentives to stay” and incentives “to leave” in accordance with strategic objectives and local reality.**

Common Traits of Successful International Labor Restructuring Programs - (Continued)

- **Make future labor liabilities quantifiable for private investor prior to bidding**
 - Any uncertainty is heavily discounted and reflected in lower offer price;
 - Major uncertainty has potential to deter potential bidders.

- **Involve labor at early stage**
 - “in house” communication campaign – town hall meetings, ombuds person, employee newsletter;
 - Communicate successful examples of labor restructuring / organize on-site visits;
 - Negotiations with labor unions or representatives on main parameters of proposed program.

Example – Manila Water

- **Prior to privatization, Early Retirement Incentive Package:**
 - Payment of all legal entitlements;
 - “Special” severance payment of 6 weeks per year of service.
- **One month before commencement date, concessionaire makes offer to remaining employees**
 - Salary and benefits at least equal to existing ones;
 - Probationary period of six months.
- **Day before transfer to private investor, all remaining employees are terminated by State Owned Enterprise:**
 - Payment of all legal entitlements;
 - “Regular” severance payment of 4 weeks per year of service.
- **Any employee who does not accept offer from concessionaire, will be paid difference between regular and special severance.**

Example – Manila Water (continued)

- **No later than 6 months after commencement, concessionaire decides which employees to retain under “regular status”**
 - New salary and benefit structure (in consultation with union);
 - Protection against termination without cause for a period of one year, through payment of difference between earlier regular and special severance.

- **Employees retained become “regular” employees;**

- **Employees who are not retained receive payment from the concessionaire, equivalent to difference between earlier regular and special severance.**

Example – Panama Power

- **Prior to bidding, employees given three options:**
 1. Remain in position with guarantee of same employment contract;
 2. Request termination of employment by mutual consent
 - Payment of all legal entitlements, including indemnity and additional “incentive” payment.
 3. Request payment of all legal entitlements, including indemnity
 - New employment contract with same salary and conditions;
 - Entitled to participate in ESOP at 6% discount to price offered by strategic investor;
 - Protected, against termination without just cause for 36 months after privatization, through an additional payment equivalent to the “incentive” payment under option 2.
- **Government financed payment of legal entitlements, indemnity and additional indemnity under option 2;**
- **Private investor finances additional indemnity, if applicable, under option 3;**
- **About 2% of 5,000 employees chose option 1, 18% chose option 2 and the balance chose option 3.**

Example – MEA (Middle East Airlines)

- **Greatly overstaffed (400 staff per aircraft versus industry standard of 120)**
- **Short time frame (3 months)**
- **Strong unions (organized according to factions)**
- **Headcount reduction was a delicate balancing act (top down)**
 - mandatory redundancies for non-performing staff
 - offer for early retirement to employees 8 years before retirement age
 - general offer of voluntary separation
- **Restructuring of salary scales and benefits for remaining employees**
- **Spin off of subsidiaries**

Example – MEA (Middle East Airlines)

MEA Headcount Reduction (Summer 2001)

MEA Staff before Restructuring

- Redundancies
- Early Retirement
- Voluntary Separation
- Transfer to Subsidiaries

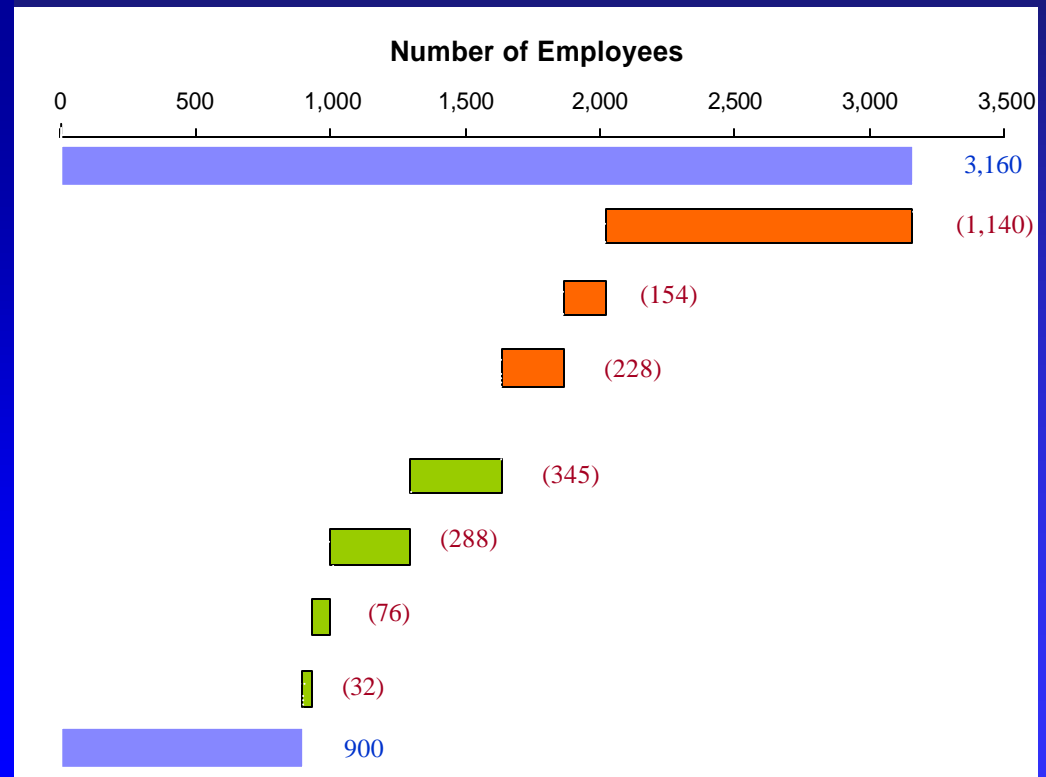
➤ MASCO

➤ MEAG

➤ MEAS

➤ LBACC

MEA Staff after Restructuring



* Excluding short-term contractual employees



Example – Aguas Argentinas

- **Labor restructuring program led to a halving of staffing levels prior to bidding; lay offs redeployed**
 - As sub-contractors to previous employer, independently or as an employee in the sector;
 - By setting up a business on their own (often with the help of the capital paid out as severance).

- **A survey of employees who stayed on revealed significantly higher levels of job-satisfaction than before**
 - Clearer career development;
 - Salary increases and incentive schemes;
 - Successful ESOP program;
 - Higher investment in training, tools and equipment.

Model for Labor Restructuring Program

- **Stage I: offer voluntary Early Retirement Package (ERP) early in process**
 - Payment of legal indemnity and attractive severance package;
 - No rehire.

- **Stage II: offer those employees who decide “to stay” simultaneously**
 - Termination - payment of legal indemnity and “reasonable” severance;
 - employees pass to privately owned company without seniority rights.
 - Employment offer from private operator (mandatory);
 - probationary period, new salary and benefit structure.
 - Option to reject employment offer from private operator;
 - payment of difference between “reasonable” and “attractive” ERP severance.
 - Protection against termination without cause during period of time;
 - payment, by private operator, of difference between “reasonable” and “attractive” ERP severance.

Model for Labor Restructuring Program (continued)

- **Voluntary Early Retirement Package constitutes an “incentive to leave” for those employees, who**
 - do not perceive future for themselves in new ownership environment, or;
 - are close to retirement.
- **The “incentive to stay” for the remaining employees is reflected in**
 - payment of termination benefits;
 - improved career and salary perspectives under private operator;
 - insurance against risks of decision to stay.
- **Carefully tailor “incentive to leave” and “incentive to stay” to local reality and to strategic objective of structuring viable company;**
- **Provide management with right to refuse voluntary termination for indispensable employees and right to terminate involuntarily, but make sparing use of such rights;**
- **Involve staff at early stage.**