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HEADLINE: Wise tending in the jobs garden: Linda Bilmes and Konrad Wetzker look at ways that companies have tried to prevent redundancies

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BODY:
The issue of unemployment lies firmly at the top of Europe's political agenda. Thirty million people are jobless. Unemployment remains stubbornly high in France (12 per cent), Germany (10.3 per cent) Spain (15 per cent) and Italy (12 per cent); indeed, one in 10 Europeans is actively job-hunting.

Most disturbingly, 'base' unemployment - that part of unemployment which fails to disappear with economic recovery - has quadrupled from 5m to 20m during the past two decades. Even though Britain's unemployment rate, at 7.8 per cent, is below the European average, nearly half have been out of work for more than a year. In Germany, Britain, France and across the Continent, unemployment is cited in opinion polls as voters' highest concern - with up to 55 per cent calling it the 'most important issue facing them personally'.

Even in the US where unemployment is below 6 per cent, voter anxiety is at its highest level since the Great Depression. Thirty per cent of Americans say they worry 'a great deal' about losing their jobs - a prospect made doubly frightening in the absence of Europe's extensive social safety net. US companies have shed millions of jobs in the past decade in an effort to boost productivity and profits. While America is better than Europe at creating new jobs, only one-third of those made redundant find a new position with equal or higher pay.

National governments can no longer recreate the secure, traditional nine-to-five jobs which predominated in the post-war era. Many of the standard economic remedies - monetary and fiscal policies, trade agreements, job-creation schemes - are less effective in an era of intense global competition. The combination of information technology, deregulation, capital mobility and the growing participation of the emerging economies in world trade is producing change on the scale of the industrial revolution.

One of the most visible results is rising unemployment in the industrial countries, with an inexorable shift towards part-time and lower-paid jobs among those who lack the new skills.

'Corporate downsizing' is often blamed as one of the villains of the piece. Companies such as AT&T attract a storm of publicity when they lay off thousands of employees - almost regardless of the circumstances which led management to take those decisions. Paradoxically, it is also the private sector which creates nearly all jobs. But little attention is paid to those companies which are deliberately saving jobs or pro-actively fostering employment.

Over the past three years, the Boston Consulting Group has been studying unemployment from the perspective of business, as well as government. BCG has identified a group of successful international companies which have consciously pursued pro-employment policies, while continuing to increase shareholder value.

Two examples of companies adopting measures to boost jobs in the short-term are car companies - Volkswagen and BMW. One of the biggest employers worldwide, the car industry has made vast job cuts in the face of new technology and global competition. VW, however, has been able to improve performance while saving 30,000 jobs. And BMW chose to hire some 3,000 new employees as part of its productivity drive - rather than investing in new equipment.

The VW story is a tale of Germany as well as cars. In 1993, after four years of declining sales and mounting losses, VW proposed to cut its 108,000 workforce by 38,000. But the company's leading shareholder, the regional government of Lower Saxony, pressured VW's management to find an alternative solution.

The company's problem was how to get over the slump in demand for cars which it expected to last for two more years. It came up with a plan to pay less and employ workers for fewer, but more variable, hours - saving 30,000 of the 38,000 jobs and increasing VW's flexibility. The other 8,000 were lost gradually through attrition.

The company introduced a four-day, 28.8-hour week as its basic 'working model' for the majority of employees, with overtime (if worked) paid at one-and-a-half times the base rate. This cut the average worker's pay by 10-15 per cent. Some younger workers gradually ramped up their hours and wages, while those close to retirement gradually decreased their hours. The cost of keeping the workers for two more years was cut to a level comparable with firing them. It also gave VW more flexibility.

By 1995 the market picked up, but VW's overtime bill soared. Management responded by raising the number of 'standard' (non-overtime) hours per week to 38.8, including 12 Saturdays per year. This cut the cost of overtime substantially. First-quarter 1996 was the best first quarter in the company's history - and VW began hiring 1,000 new workers.

VW is a special case. As its main shareholder, Lower Saxony would have incurred more than DM450m (Pounds 196m) in unemployment costs as a result of the proposed layoffs and would have lost a further DM1bn in tax revenues. Few shareholders have such a direct stake in maintaining jobs. Nevertheless, because it had such a strong incentive to do so, VW found a better plan - which also left the company well-positioned to cope with the current upturn in demand.

BMW has built its success in part on flexible working models for its 58,000 employees. 'We use over 200 different working models for flexible working time,' says Bernd Pischetsrieder, chief executive. This philosophy was put to the test in 1990 when BMW decided to seek a dramatic one-third boost in productivity at its new plant in Regensburg, Bavaria. The company faced a choice. It could introduce a second shift, which would mean increasing the workforce from 7,200 to almost 10,000 but requiring most of them to work unpopular hours.

Alternatively, the company could invest in additional equipment and hire only 1,000 extra workers working a single shift. Assuming depreciation over the standard six years, the annual cost of the two options was comparable.

BMW opted for a second shift in order to improve its production flexibility. It sugar-coated the pill by reducing individual working hours even though factory hours more than doubled, from 40 to 99 per week. Productivity jumped by almost 30 per cent. BMW subsequently introduced a similar two-shift model for its 7,000 workers in Munich, adding hundreds of new jobs.

BMW has been a pioneer in Germany, implementing a degree of labour flexibility that most companies have thus far resisted. The country has 1.2m workers who could be placed on a Regensburg-type shift system, creating more than 500,000 new jobs.

In America, this kind of solution might seem far-fetched. Nonetheless, Hewlett-Packard, America's third biggest computer company, has deliberately adopted flexible wage and working patterns over four decades in order to avoid layoffs among its 99,000 employees.

HP has a strict 'no redundancies' policy. To deliver on this pledge, through the ups and downs in profitability, the firm has used all the traditional solutions, such as redeployment of personnel within the firm, hiring from within, voluntary severance, and retraining programmes.

But when necessary, HP adopts 'flexible measures'. In 1970, the company's US employees had every other Friday off without pay. In 1985, for three months, HP closed most US manufacturing and administrative facilities for one to two days per month, requiring 60,000 workers to take unpaid leave, and a forced pay cut of 9 per cent. Individual facilities often close for holiday periods to reduce overtime and running costs. During a recent downturn, the company encouraged employees in the US to take up to six months unpaid leave whilst retaining their benefits and job guarantee. And at its plant in Grenoble, France, HP used a similar approach to VW, asking workers to reduce hours and wages in order to save jobs.

HP believes that its pro-employee philosophy builds loyalty to the company, and makes employees willing to work harder during product launch periods.

Rank Xerox has used flexible working arrangements as a way to minimise job cuts. Since 1989 Rank Xerox has permitted flexible days and hours, a 'career break' policy, extended unpaid leave for maternity, paternity and adoption, part or full-time leave for education and training and job shares. Although the company has made lay-offs, they have been a last resort.

To save costs and thereby avoid further redundancies, Rank Xerox is currently spending Pounds 6.4m to equip its salesforce with portable workstations. This will save on the one-third of personnel costs which are tied up in office space and equipment. Salespeople will have access to an Oracle database using their laptops, but they can work from home, their cars, or customer sites. The main short-term purpose of this move, according to Rank Xerox, is to save more than 600 jobs. Over the long-term, the company expects the investment to boost productivity substantially.

Of course, there are situations in which jobs simply cannot and should not be saved. But even here, companies can do a great deal to ease the transition of former employees into new jobs. One of the best known examples is Pilkington Glass. Competition, technology and productivity improvements led to massive restructurings; employment fell from 18,000 in 1970 to just 4,000 by last year. On its own initiative, Pilkington set up a trust which sponsored job creation schemes offering financing, advice and office space. It assisted in nearly 1,900 start-ups, which between them created 15,800 jobs.

In Germany, such initiative is rare - but it does exist. In 1992, when AEG-Olympia ceased production at its 2,000-person typewriter plant in Wilhelmshaven, the company paid to convert the former site into a technology park. Technology Centrum Nordwest (TCN) opened in January 1993, initially providing office space for 14 start-up companies which employed 900 former AEG workers. Those who joined the new ventures received two-thirds of their severance pay, with the remainder being invested in their business.

The TCN is now home to 31 companies which employ more than 1,500 workers in light industry and services. Holger Ansman, general manager, attributes its success to the speed and flexibility with which it can renovate office space and he expects to generate more jobs this year. 'When there are 2,000 workers here then I will feel that I have done my job,' he says.

Apple Computer Europe also tried to promote new jobs when it was forced to lay off staff. In 1991, Apple decided to integrate marketing and management of its European operations into its US divisions. This led Apple to halve its headcount in Europe - both at its headquarters in France and within each country organisation. Apple provided its former employees with far more options than were legally required.

In France, for example, the 300 ex-Apple workers were each offered a FFr50,000 (Pounds 6,400) tax-free grant to set up their own companies - doubled to FFr100,000 if the new company helped sell or support Apple machines. Employees could alternatively choose to receive FFr40,000 in training or outplacement services. These options were in addition to generous severance pay.

About 15 per cent of former Apple France employees chose to set up their own companies, most of which are thriving. It is estimated that the new companies now employ close to 300 people. 'Apple did a good job. It was a generous plan, and it was innovative,' says Zepur Blot, treasurer of the Apple Employees Council, who helped negotiate the package for the workers.

Many other companies have quietly made a substantial contribution to easing the unemployment problem. The measures described here cannot solve the structural problems which underlie Europe's job crisis. But they keep hundreds of thousands of workers off the unemployment register and help many make the transition to new jobs.

An article on companies that have created new jobs will appear next week.

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