

UNEMPLOYMENT, DOWNSIZING AND OUTPLACEMENT DURING ECONOMIC CRISIS.

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Abstract

Downsizing is complex and important subject. The article describes this issue and applications in context of contemporary situation on labor market in EU and in Czech Republic. We made a pilot study on how are rules followed during times of increased unemployment (legal, ethical...). We addressed 200 respondents from January 2009 to April 2009. They were clients of personnel agency with national scope and importance. They were unemployed and looked for another job. They were addressed by e-mail. We received answers from 126 persons and 118 were completed correctly and could be used. Downsizing and Outplacement are important but not popular part of job of HR specialists and work psychologists. It is inseparable part of their job, strongly tied to economic cycles. In case the downsizing is handled in proper manner, with right psychological, legal and human approach, it could be as a result helpful to organization survival. To employee it could bring together with change a new perspective of his work career.

Key words: Downsizing, Outplacement, Unemployment

JEL Code: JEL Code, JEL Code, JEL Code (2 – 3)

1. Introduction

In last 10 years in Czech Republic downsizing took place in especially in private sphere of business. Main reasons were destructuralization of production facilities and economy as a whole. Nowadays in context of global economic crisis is downsizing again on agenda of many companies. Unemployment rose. Outplacement is again actual. In this article we discuss the subject, situation and psychological approach to downsizing and outplacement in context of situation on labor market.

2. Situation on labor market in Czech Republic

The data from Czech Statistical Office from August 2009 show **the biggest increase of unemployment since 1999, in the year-on-year comparison (ČSU 2009a)**. Compared with Q2 2008, total employment decreased by 62.0 thousand in Q2 2009, the employment rate (age group 15-64) reached 65.4% to fall by 1.2 p.p., y-o-y. The number of unemployed persons according to ILO methodology was up by 113.8 thousand, compared with Q2 2008, the number of the long-term unemployed fell by 16.9 thousand. The general unemployment rate in the age group 15-64 increased by 2.2 percentage points compared with Q2 2008.

2.1. Employment

The preliminary data for Q2 2009 continue to show the negative impact of economic downturn on total employment; the seasonally adjusted (SA) **average number of employed persons** decreased by 21.3 thousand (-0.4%) in comparison with Q1 2009. The average number of the employed fell, even without seasonal adjustment, by 5.5 thousand. Since 1999, it happened for the first time that in usually favorable spring season the number of employed persons recorded an absolute drop.

2.2. Unemployment

The seasonally adjusted **average number of unemployed persons according to the International Labour Organisation (ILO)¹⁾ methodology** increased by 44.9 thousand (+0.8 p.p.) in comparison with Q1 2009. Even though, the rate of decrease compared to the decrease recorded between Q1 2009 and Q4 2008 slowed down by one third, it still shows one of the biggest increases of unemployment throughout one quarter.

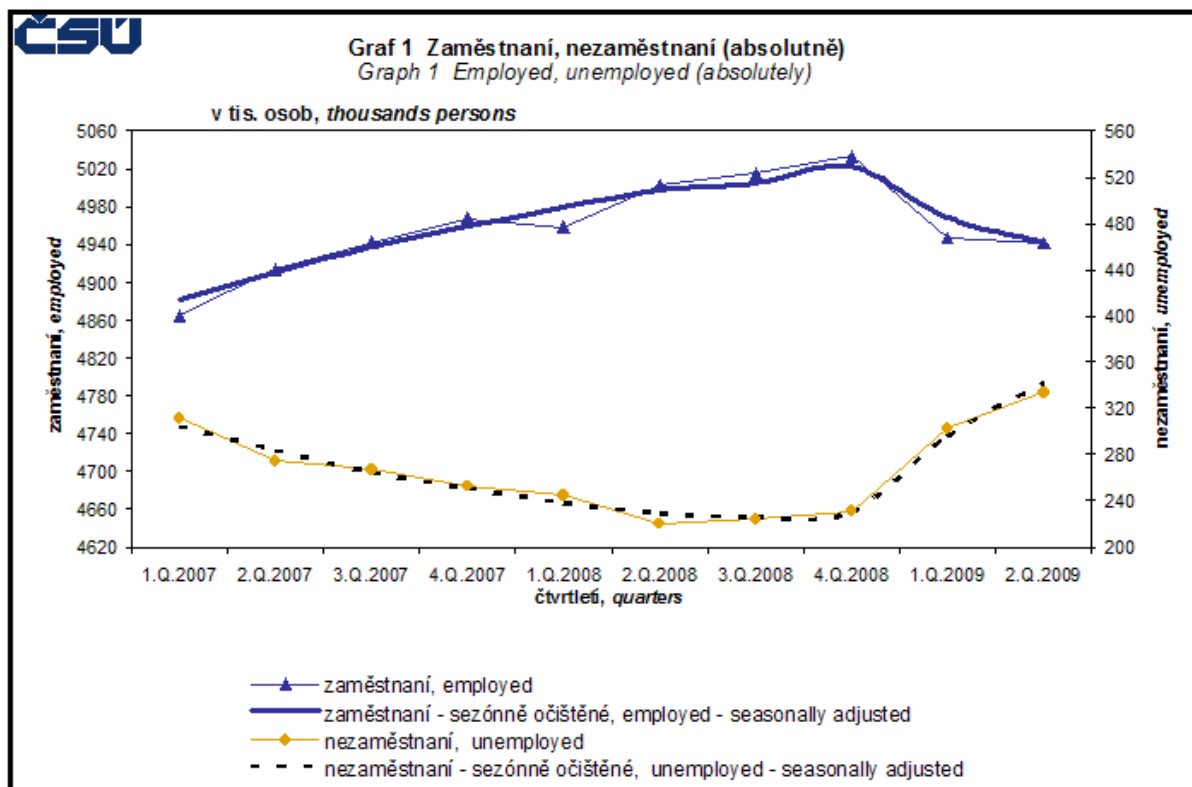
The number of unemployed persons reached 333.2 thousand (of which 168.8 thousand women), i.e. up by 113.8 thousand compared with Q2 2008. In relative terms, the increase was more than a half (51.7%). Female and especially male unemployment grew by 50.9 thousand and 62.9 thousand, respectively.

The number of persons unemployed for one year and more decreased by 16.9 thousand compared with Q2 2008 to 95.6 thousand and their percentage markedly fell to 28.6% of all

the unemployed, compared to previous quarters. In Q4 2008 the share of the long term unemployed in all the unemployed made almost one half (46.5%).

The **general unemployment rate according to the ILO definition** (in the age group 15-64) reached 6.4% (up by 2.2 p.p. compared with Q2 2008), which is the biggest growth of unemployment, y-o-y, since 1999.

The different survey methodology led to a discrepancy between the general unemployment rate (ILO) and the registered unemployment rate (the Ministry of Labour and Social Affairs of the CR). The development trend was similar for both rates. The registered unemployment rate (MLSA CR) reached 7.9% (up by 2.7 p.p. compared with Q2 2008). Low unemployment rates are steadily recorded for university graduates (1.9%) and persons with full secondary education with *maturita* examination (4.4%). A high unemployment rate persists among persons with basic education (23.8%), and slightly above-average unemployment rate was recorded in the large group of persons with secondary education without *maturita* examination including persons with apprenticeship education (7.1%).



Graph 1.: Employed, unemployed in absolute numbers (ČSÚ, 2009b)

3. Situation in the labor market in the Czech Republic in comparison to the other EU countries

4.1. Employment

In the EU the Czech Republic belongs to the countries with employment intensity which is above the average. The latest complete data released by Eurostat for Q3 2008 say that the employment rate for the 15-64 age group is higher in the Czech Republic than the total for the EU27. However, female employment rate is in the Czech Republic still below the EU27 average.

Concrete aims for employment rate in the EU countries until 2010 were determined in the meetings of the European Council in Lisbon in 2000 and Stockholm in 2001. The total employment rate should reach at least 70%, female employment rate at least 60% and elderly employment rate (age group 55-64) at least 50%.

There are considerable differences in employment rates between EU countries, not only in terms of the wide age group 15-64, but also the male and female employment components. On the one hand there is a high employment rate in the northern countries and the United Kingdom (e.g. 78.3% in Denmark in Q4 2008); on the other hand employment rate in some of the countries was below 60% (e.g. 56.7% in Hungary in Q4 2008). Comparing neighbouring countries to the Czech Republic, higher employment rates in the long term are in Austria and Germany and significantly lower in Poland and Slovakia.

Employment rates for 15-64 and 55-64 age groups in EU countries, Q4 2008

%

Country	Q4 2008					
	15-64 years			55-64 years		
	Total	Men	Women	Total	Men	Women
Belgium	62.4	68.8	55.9	35.0	44.0	26.3
Bulgaria	64.3	69.2	59.6	47.0	56.8	38.6
Czech Republic	66.8	75.8	57.7	48.0	62.4	34.7
Denmark	78.3	81.6	74.9	56.1	64.5	47.9
Germany	71.3	76.3	66.2	54.7	62.7	47.1
Estonia	69.6	72.6	66.8	63.8	66.6	61.7
Ireland	65.6	72.3	58.9	52.5	64.7	40.2
Greece	61.7	74.6	48.8	42.8	59.1	27.5

Spain	62.8	70.9	54.5	45.6	60.4	31.5
France	65.0	69.7	60.5	38.6	41.0	36.3
Italy	58.5	69.8	47.2	34.9	46.3	24.2
Cyprus	71.1	79.2	63.2	54.1	71.1	37.9
Latvia	66.5	69.3	63.9	57.5	58.3	56.9
Lithuania	63.8	65.9	61.9	51.8	59.3	46.1
Luxembourg	62.6	69.8	55.3	30.9	36.5	25.3
Hungary	56.7	62.6	51.1	32.1	38.8	26.5
Netherlands	77.6	83.4	71.8	54.0	64.9	43.1
Austria	72.2	78.4	66.1	41.0	51.5	31.0
Poland	60.0	67.1	53.1	32.0	44.6	20.9
Portugal	67.9	73.6	62.2	50.4	58.4	43.2
Romania	58.3	64.9	51.7	43.0	53.5	33.8
Slovenia	68.8	72.5	65.0	32.7	44.0	21.7
Slovakia	62.9	70.8	55.1	40.4	58.0	25.1
Finland	70.3	72.0	68.5	56.6	57.1	56.2
Sweden	73.4	75.8	71.0	70.0	73.0	66.8
United Kingdom	71.3	77.0	65.7	58.0	66.9	49.5

Source: Eurostat; employment rate for the EU in total not published, data for Malta were not available

4.2. Unemployment

The general unemployment rate in the Czech Republic is lower in comparison to the EU25 average; in the Czech Republic the male and female unemployment rates are relatively low and below the average, respectively. Compared to the neighboring countries, the unemployment rate is higher than in Austria but markedly lower than in Slovakia (unemployment rate in Slovakia is one of the highest across the EU). A considerably higher rate is recorded in Poland too. Unemployment rate in the Czech Republic is noticeably lower than in Germany due to the long-term unfavorable situation in the new Länder.

It should be noted that the data presented cover Q4 2008 when the consequences of the economic crisis began to be apparent in individual countries with a certain delay. While in half of the countries the unemployment rate in last Q4 2008 was below that in Q4 2007, it

grew heavily in some of the other countries. Unemployment rate increased substantially mainly in Spain and nearly doubled in the three Baltic countries.

Unemployment rates for 15-64 age group in EU countries, Q4 2008

%

Country	Q4 2008			Difference (p.p.) Q4 2008-Q4 2007		
	Total	Men	Women	Total	Men	Women
Belgium	6.8	6.0	7.8	-0.3	-0.4	-0.2
Bulgaria	5.1	5.0	5.1	-1.1	-0.7	-1.6
Czech Republic	4.4	3.4	5.7	-0.5	-0.3	-0.7
Denmark	3.6	3.6	3.5	0.4	0.6	0.1
Germany	7.0	7.1	7.0	-1.2	-0.9	-1.4
Estonia	7.8	8.5	7.2	3.5	3.9	3.2
Ireland	7.6	9.4	5.3	2.9	4.2	1.2
Greece	8.1	5.4	11.8	-0.1	0.1	-0.6
Spain	14.0	13.0	15.2	5.3	6.1	4.1
France	7.9	7.3	8.5	0.3	0.2	0.3
Italy	7.1	6.1	8.6	0.4	0.7	-0.1
Cyprus	3.4	3.1	3.9	-0.2	0.0	-0.3
Latvia	10.1	11.8	8.4	4.7	6.3	3.1
Lithuania	8.0	8.6	7.4	3.7	4.0	3.4
Luxembourg	5.4	5.5	5.2	1.6	2.3	0.7
Hungary	8.0	8.1	8.0	0.2	0.6	-0.1
Netherlands	2.6	2.4	2.8	-0.2	-0.1	-0.4
Austria	4.0	3.6	4.5	-0.1	0.0	-0.1
Poland	6.8	6.1	7.7	-1.8	-1.7	-1.8
Portugal	8.3	7.2	9.4	0.0	0.6	-0.8
Romania	6.1	7.0	4.9	-0.3	-0.5	-0.3
Slovenia	4.3	4.0	4.7	-0.5	0.0	-1.1
Slovakia	8.7	7.6	10.0	-1.7	-1.4	-2.3
Finland	6.0	5.9	6.2	-0.2	0.0	-0.2
Sweden	6.3	6.1	6.4	0.7	0.9	0.4
United Kingdom	6.3	6.9	5.5	1.3	1.6	0.7

Source: Eurostat; Unemployment rate for the EU in total not published, data for Malta were not available

According to the extrapolation models released by Eurostat, the unemployment rate in the EU grew strongly **in Q1 2009** – seasonally adjusted rate up to 8.3% in March 2009 in the EU27 (7.8% in January and 8.1% in February 2009; the rate in March 2008 was just 6.7%). These calculations suggest that the number of the unemployed exceeded 20 million in the EU27. A slightly higher unemployment rate is in the EU15 where the economic crisis hit the labor market earlier than in the countries of Central and Eastern Europe.

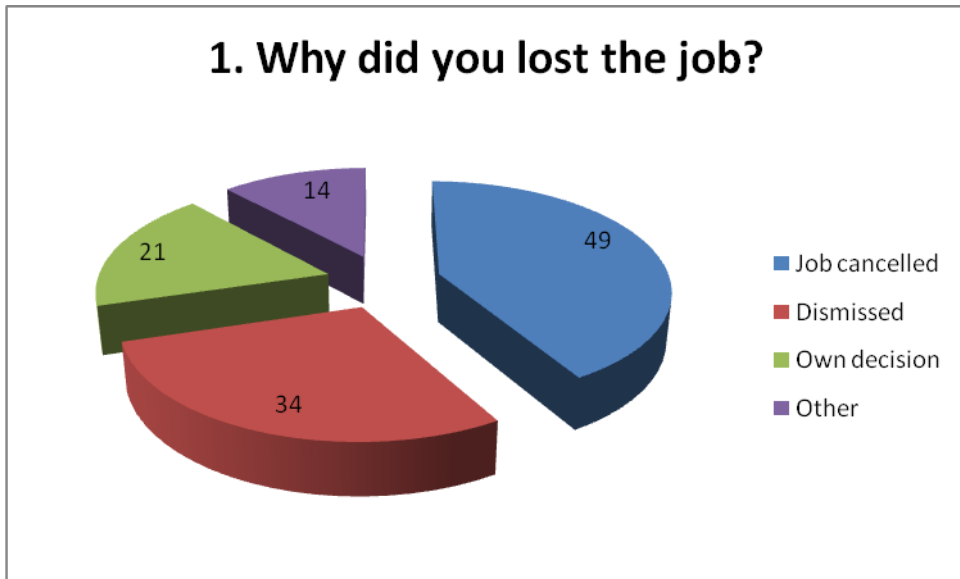
Compared internationally, the high share of the long-term unemployed remains a negative aspect of the unemployment trend in the Czech Republic. Among all the EU countries, the Czech Republic had the fifth highest share of persons unemployed for one year or more in the total number of the unemployed in Q4 2008. The highest shares were recorded, besides Bulgaria, in neighboring Germany and especially in Slovakia where the long-term unemployed made up nearly two thirds of total unemployment. High shares of the long-term unemployed in these countries are a chronic problem applying not only to elderly persons in employment.

5. Research part

We made a pilot study on how are rules followed during times of increased unemployment (legal, ethical...). We addressed 200 respondents from January 2009 to April 2009. They were clients of personnel agency with national scope and importance. They were unemployed and looked for another job. They were addressed by e-mail. We received answers from 126 persons and 118 were completed correctly and could be used. Research was oriented on downsizing and outplacement and the questions were following:

1. Why did you lost the job?

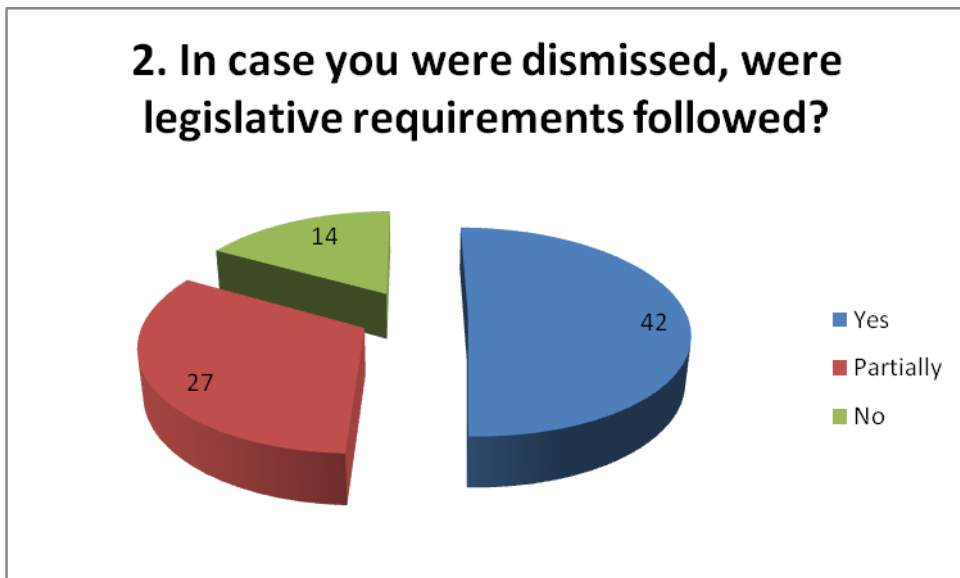
49 persons (42%) answered that their working position was cancelled due to reorganization or there was collective redundancy, liquidation or company bankruptcy. 34 respondents (29%) said, that they were dismissed due to bad results, but some of them mentioned it was an excuse for downsizing. Some mentioned, that employer recommended to them to sign agreement on job termination, which they did. Position of person, who signed agreement is better then position of one, who was dismissed. From own decision changed job 21 respondents (18%). Other reasons were mentioned by 14 persons (12%).



Picture 1.: Response to first question

2. **In case you were dismissed were legislative requirements followed?**

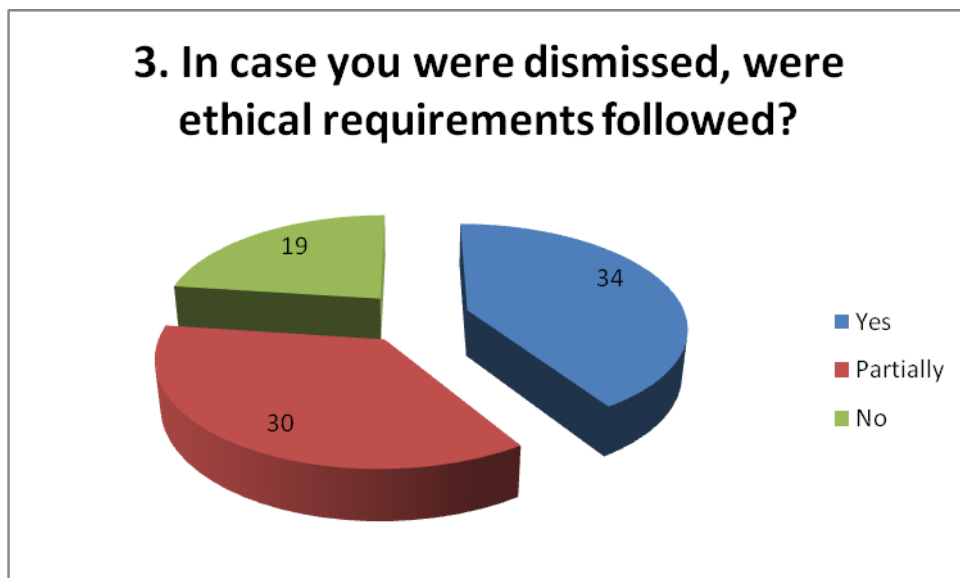
Legislative requirements are for example notice period or getting redundancy payment. 42 respondents said, that legislative requirements were followed. 27 said, that it happened only partially and 14, that they were not followed.



Picture 2.: Second question

3. **In case you were dismissed, were ethical requirements followed?**

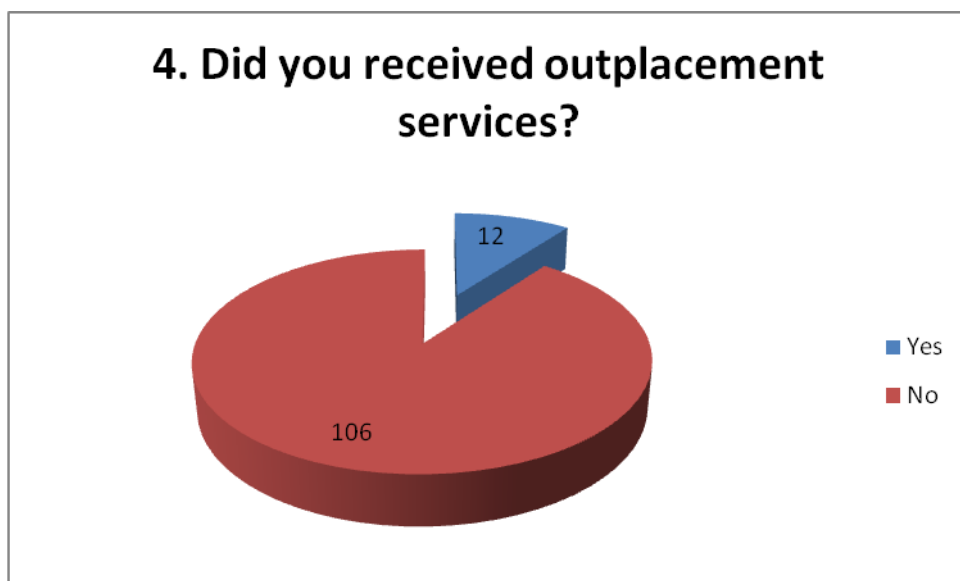
34 persons said, that ethical requirements were followed. Another 30 said, that only partially and 19, that ethical requirements were violated.



Picture 3.: Third question

4. Did your employer given you any outplacement services?

90%, which represented 106 persons said, that outplacement was not offered. 12 respondents were offered outplacement and to them we given also 2 other questions.

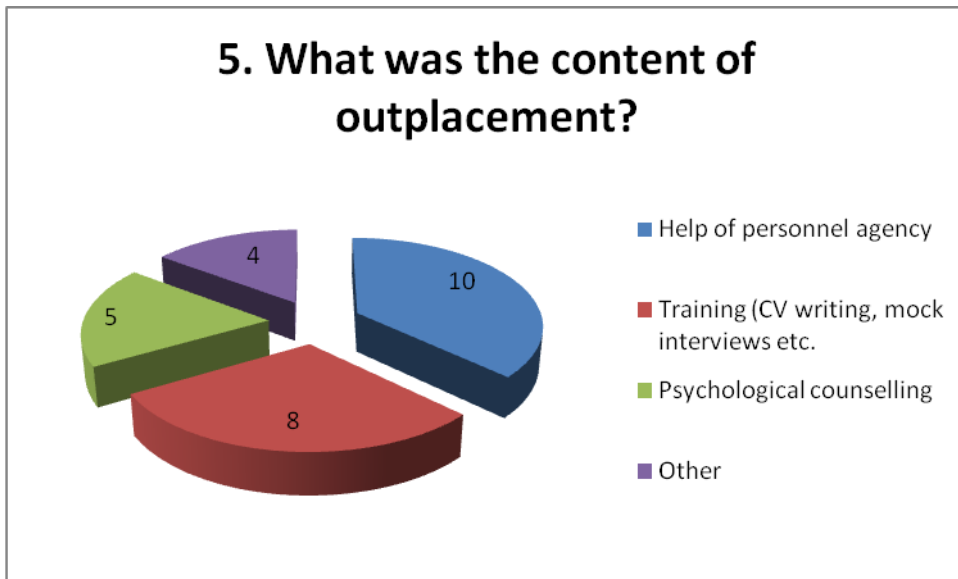


Picture 4.: Fourth question

5. What was the content of outplacement?

From 12 persons, offered outplacement, 10 said, that it was a help of personal agency, 8 said, that they participated in training (CV writing, mock interview etc). 5 were offered psychological counselling and 4 received other help. Some respondents were offered free parts of outplacement, while others received just one service. Usually they received two part

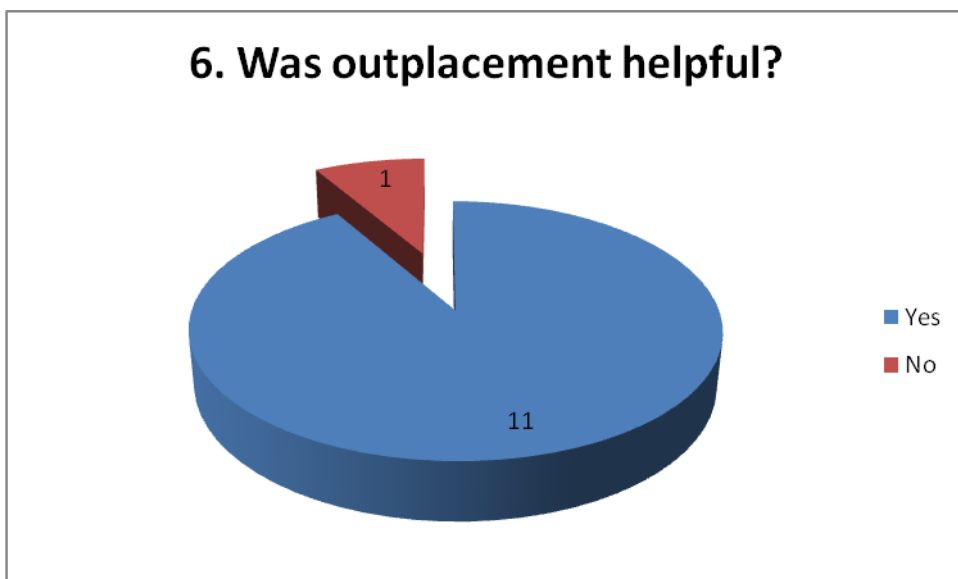
s of outplacement service. That's why the total number of respondents differs from number of answers.



Picture 5.: Fifth question

6. Was outplacement helpful?

11 respondents said, that outplacement was helpful, 1 said, that it was a waste of time.



Picture 6.: Sixth question

6. Conclusion

Downsizing and Outplacement are important but not popular part of job of HR specialists and work psychologists. It is inseparable part of their job, strongly tied to economic cycles. In case the downsizing is handled in proper manner, with right psychological, legal and human

approach, in could be as a result helpful to organization survival. To employee it could bring together with change a new perspective of his work career.

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