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# Transfer-Companies
# A Major Labour Market Restructuring Instrument

by

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# 1. Objectives

The massive outplacement from eastern German companies after unification brought the idea to transfer workers to job creation companies *(Beschäftigungsgesellschaften)* which provided both job security and training during the transition phase. Most of these jobs were publicly financed through the German job creation programme *(Arbeitsbeschaffungsmaßnahmen, ABM).* In parallel, the instrument of "structural short-time work" was used mainly in western Germany to reduce labour market risks of company closures. The passive utilisation of the programme – predominantly as a bridge to early retirement – however, initiated the reform of these instruments. In 1998 training measures became compulsory for workers in structural short-time work scheme which should facilitate the transition to new jobs. With the Hartz reform in 2003 the maximum payment period was shortened from 24 to 12 months, and individual profiling of workers was introduced *(Hartz III).*

The development was strongly influenced by the theory of transitional labour markets which draws particular attention to the periods of change in individual employment careers and demands for public support during these phases. With the instrument of short-time work, German labour market policies absorbed cyclical changes of employment already since decades. The new approach however addressed the decline of companies and sectors and thus is targeting at structural transition of labour markets. The instrument is focussing on training and retraining of workers at risk. Transfer short-time work, as it is called since the Hartz reform, should raise the flexibility of labour by reducing labour market risks. Thus it is a typical flexicurity instrument.

# 2. Organisation, implementation and funding

## 2.1. Legal regulations

The existence of transfer-companies is based on two legal principals who are included in the dismissals act in form of the regulation of redundancy payments in the case of mass redundancies and the provision of transfer benefits in the social code:

*Redundancy payments*

Following the dismissals act (*Kündigungsschutzgesetz, § 17*) all dismissals of more than 30 persons within 30 days have to be announced to the local labour agency and the works council of the firm. The local labour agency can postpone dismissals for a maximum of 2 months, considering the interests of the employer, the workers, and referring to the situation of the sector and the regional labour market.

The works council has to be informed about

- the reasons for the dismissals,
- the number and occupational groups of workers affected,
- the number and occupational groups of workers employed,
- the timing of dismissals,
- the selection criteria,
- possible redundancy payments.

The works council has the right to negotiate on the dismissals with the employer and to take action to avoid it or reduce negative consequences. Similar rights exist in the case of "changes of the firm" like closure of locations, mergers, or separations. Also in the case of principal reorganisation of the work or the introduction of new technologies, the works

councils have to be involved. In the case of conflicts between employer and works council an arbitration committee will take the decision.
The selection of workers who will be dismissed has to consider their social protection requirement rather than their profitability. This is the principle of German dismissals regulation (*Kündigungsschutzgesetz § 1*). The dismissal is not justified if the employer did not adequately consider the job tenure, age, maintenance obligations, or disability. However, workers who are indispensable for the company can be excluded from the selection. Works councils are obliged to control the selection.

In the case of "changes of the firm" (*Betriebsänderung)* the firm has to negotiate with the works council on a "social plan" (*Sozialplan*) which should compensate the disadvantages for workers resulting from the changes. This obligation exists for firms with more than 500 employees or more than 60 dismissals. Companies which were founded within the last four years are excluded from this regulation.

The social plan has to regulate redundancy payments, the remuneration of relocations and training costs and other issues. The redundancy regulation has to include income, job tenure and age. Beyond these basic regulations companies and works councils are free to negotiate on different agreements. In some cases (recently at AEG Nürnberg) workers go on strike to enforce an adequate regulation.

*Transfer benefits*

As a special type of unemployment benefits, "transfer benefits" (*Transfer-Kurzarbeitergeld, SGB III § 216b*) are provided to employees affected by the closure of businesses. Two types of payments exist:

- *Transfer measures*, which help to re-integrate employees in the primary labour market. These measures are subsidised with 50 % of total costs and the maximum of 2,500 EURO.
- *Transfer benefits*, which are paid for the maximum period of 12 months; the level of payment is 60 to 67% of former net wages as in the case of regular unemployment benefits. The precondition for this type of benefits is that the workers affected by company closure are brought together in a self-contained company. All workers have to pass a placement assessment (profiling) which helps to forecast their placement probability.

These regulations involve three parties for the funding of mass redundancies:

- the employers have to pay redundancy compensations based on individual and social criteria,
- public unemployment insurance supports the transition phase through the transfer benefits,
- employees disclaim on parts of their net incomes.

ESF resources are used by public unemployment insurance to finance orientation courses, continuing training and travel expenditures of participants. According to the evaluation of the ESF programme run by the German Federal Labour Office, 42,600 participants in training measures were counted in the period 2000-2004 *(Deeke 2005)*.

## 2.2. Transfer-companies

Based on these instruments, an extensive outplacement business grew in Germany. Big companies and the HR consulting business developed the transfer-company to one of the major restructuring instruments in the course of the rapid decline in manufacturing employment. While this type of HR consulting was initially concentrated on top managers, it is meanwhile used for a broad range of specialists and entire staffs of companies or business locations. Following a study of the Federal Union of Business Consultants (BDU), 30 to 40 % of the big German companies used outplacement services in recent years.

In principle, there are two types of outplacement instruments:

Table 1 Outplacement instruments

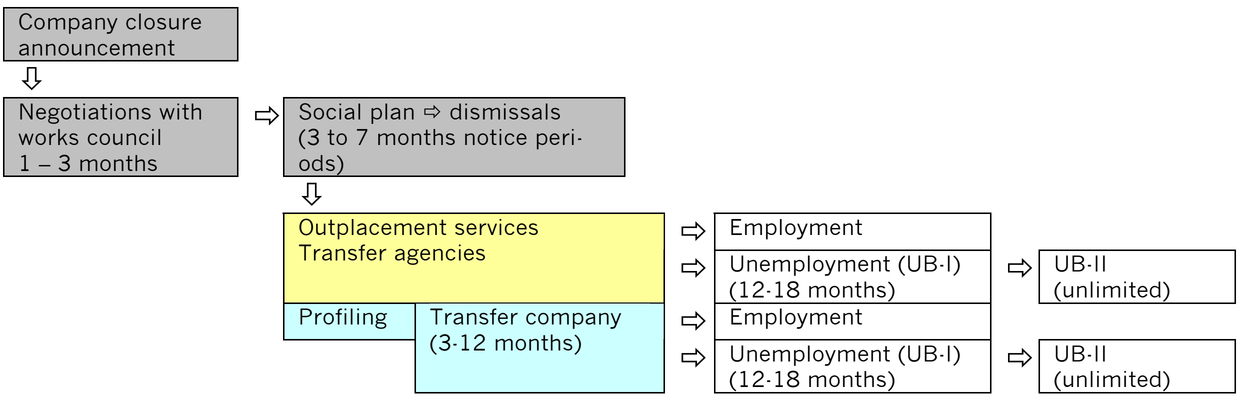
| Instrument | Costs | Target group |
|---|---|---|
| **Outplacement** | | |
| Individual persons are prepared for job applications and are placed at potential employers. This service is provided during the period of notice. | 2,500 – 5,000 EURO per employee, paid through:<br>• 50 % by employer<br>• 50 % by public unemployment insurance | Workers with a high placement probability |
| **Transfer company** | | |
| Those employees who did not find a new job during the period of notice change to the newly founded transfer company on a voluntary basis. The position in the transfer company is provided for 3 to 12 months. Employees receive outplace services and training. | 80 % of former net wages:<br>• 60 to 67 % of net wages are paid by public unemployment insurance (transfer benefit)<br>• the rest is paid by the employer through redundancy payments and shorter notice periods | Workers with a lower placement probability |

Source: Karent (2005).

The most comprehensive instrument of outplace is the transfer company (*Transfergesellschaft*). This type of outplacement is based on the foundation of a follow-up company taking over the staff of a business which will be closed. Using unemployment benefits and other public transition subsidies, the transfer company guarantees incomes for a limited period and provides outplacement services to the staff.

The timing of such a transfer company is as follows:

Table 2 Phasing of outplacement




Source: Karent (2005).

After the decision to close a location or company, the management has to start negotiations with the works council as described above. This takes 1 to 3 months and results in a social plan defining the number of dismissals and redundancy payments. With the agreement on the social plan, outplacement services can start. Through individual consulting, workers are profiled and placed in other companies as far as possible. These activities are often organised by transfer agencies.

Through the foundation of the transfer company, workers have the possibility to receive training and – most importantly – to extend unemployment benefit periods up to 24 to 30 months with similar income conditions. This provides a substantial reduction of unemployment risks in the case of mass redundancies.

With the voluntary entry into a transfer company, employees partly abandon their entitlements regarding the period of notice and redundancy payments. In the case of early exit from the transfer company, they receive the remaining sums of redundancy payments. A "sprinter premium" awards those workers who leave the transfer company before the expiration of their fixed-term contract.

Outplacement services include the information of workers about dismissals, social plans and job opportunities. Moreover, application training is provided in combination with competence profiling. Workers are individually consulted about job opportunities and application strategies. In large companies, job centres are established to provide these services.

Workers receive 80 % of their former net income in general. This consists of 60 to 67 % from transition benefits paid by the Federal Labour Office. In addition, employers have to pay for

- Add-on wage (13 to 20 %) to achieve the 80 % level
- Social contribution rates
- Training costs
- Administration of the transfer company

These elements sum up to 50 % of the former labour costs. In many cases this is co-financed in exchange of shorter periods of notice and lower redundancy payments.

## 2.3. Use of transfer short-time work

There is no statistical evidence for the number of transfer companies in Germany. However, the number of companies using transfer short-time work is well documented. There are also figures about the number of workers in this scheme. In addition to transfer companies these figures include the application of this instrument in case of partial closures of locations or separations. Statistical information for North-Rhine Westphalia indicates that 90 % of the transfer short-time workers are employed by transfer companies (G.I.B. 2005).

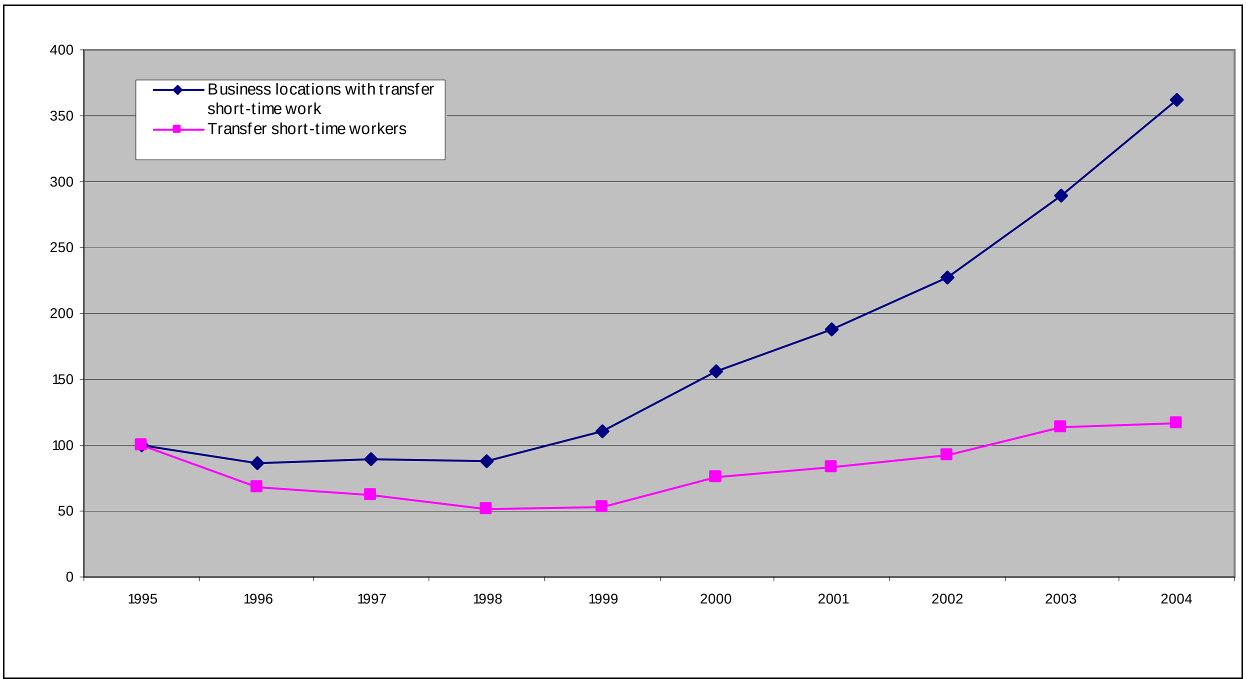
As Chart 1 shows, the application of transfer short-time work rapidly increased with the new regulation in 1998. In 2004 the number of business locations using the instrument was 3.6 times higher than in 1998. The number of workers included in the measure more than doubled during this period.

In 2004 the share of transfer short-time work among all business locations using short-time schemes was 8.4 % in western Germany. This share continuously increased since 1998. The share of workers in transfer short-time work among all short-time workers rose to 24 %. In eastern Germany, the share of business locations with transfer short-time was lower (5.2 %) as was the share of transfer short-time workers (17 %).

Following the G.I.B. statistics for North-Rhine Westphalia, the instrument of transfer short-time work is strongly used by large companies: 30 % of the transfer projects have 500 and more employees. Moreover, medium sized companies with 60 to 500 employees represented with 56 %. The share of small sized companies with less than 60 employees is 14 %. This indicates a strong bias to bigger companies.

The majority of workers in transfer companies is over 50 years (53 %), and 82 % are men. Thus the staff structure in North-Rhine Westphalia strongly concentrates on the difficult targets groups of the labour market.

Chart 1 Transfer short-time work
(1995 = 100)




Source: Bundesagentur für Arbeit, IAB

## 3. Performance and achievements

The strong increase of transfer short-time work can be attributed to both, the financial incentives to companies and the extension of unemployment benefits for workers. Companies profit from lower labour costs during the period of notice and the moderation of social conflicts associated with closures. Workers profit from placement services, training and longer benefit periods.

Little is however known about the performance of transfer companies. Most importantly, the interim report of the Hartz evaluation does not contain results concerning transfer short-time work due to lack of data (BMAS 2006). The European study on "Managing Institutional Restructuring in Europe" (MIRE), which covers German transfer companies, will not be finished before autumn 2006. Other sources only provide limited information on the subject.

As the G.I.B. data indicate, the difficult staff structure of transfer companies in North-Rhine Westphalia reduced the probability to re-enter the labour market. During the period of notice, 41 % of the workers could be placed by transfer agencies. Only 35 % of the participants terminating the employment in a transition company, however, could find a job while 59 % remained unemployed. Only 2 % founded a new business and 2 % were in training. This result is associated with the difficult labour market situation in North-Rhine Westphalia and thus indicates the problems in other areas of high unemployment. The regional variation of placement rates therefore can be expected to be high. In particular if the staffs are younger and highly specialised, placement rates are more positive.

One of the major targets of the reform of transfer benefits was to raise training participation of short-time workers, in particular if their job will be terminated. As calculations by the IAB indicate, this target was achieved. While before 1998 only a minority of companies provided training to displaced workers, this changed significantly afterwards. In 2001 70 % of the companies provided training, and the share of short-time worker in training rose to approximately 50 % *(IAB 2006, p. 179)*. However, it is unclear how this training participation is measured – on the basis of planned or realised participation. Therefore, these figures have to be used with caution.

Practice examples reveal both, positive and negative cases. In a critical report on Opel Bochum, the TV programme Monitor revealed that the transfer company did hardly provide any placement or training services. On of the other side the transfer-company of the Hypo-Vereinsbank not only placed redundant workers on the labour market but was developed to an internal placement service within the bank. TransFair and Hypo Profil are operating as the HypoVereinsbank placement services[1]. They operate as a temporary work agency employing 600 workers which are borrowed to the operating departments. Moreover they provide skills development, coaching and consultancy to workers. Following the bank's assessment, the internal temporary work agencies did not only help solving short-term problems but also improved the management of change. They encouraged project-based work, improved the placement process and raised overall flexibility of human resources. The instrument, however, is limited to the staff remaining in the company. It hardly helps placements on the external labour markets and does not create additional jobs.

The intended services to displaced workers concerning profiling, training and placement are certainly the key factors which determine the success of transfer companies. The negative examples of transfer companies provoked a vivid debate about how to guarantee quality standards of these services. These standards will have to be implemented with the next reform steps.

[1] The description is based on EMCC case studies undertaken by Economix: TransFair and HVB Profil: The internal organisation of HypoVereinsbank's placement and temporary work agency. Dublin 2005.

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