

## EMPLOYEE RESILIENCE IN TIMES OF CHANGE: PARTICIPATION AND WELL-BEING DURING MERGERS AND RESTRUCTURING

### CASE STUDY: HEMPEL A/S DENMARK

Visited 10-11 June 2008

The Hempel Group is an international surface coating business, developed from its core of ready-mixed marine coating products. It operates within several strategic segments, including marine paints, protective coatings, container coatings, decorative paints and yacht paints. Since its establishment in 1915, the Group has grown to become a world-wide enterprise comprising 2 main and 4 regional research and development facilities, 20 manufacturing plants, 47 sales offices and more than 130 stock points strategically located around world. The Group's global supply presence is essential in meeting the need for fast delivery times to customers.

The organisation's strategic aim is to be number one supplier in its niche by 2012, with a focus on coating solutions for all types of steel structures and civil constructions. The head quarters at Lundtofte, Denmark has 150 head office employees, 150 in research and development and a further 150 at the paint production plant and warehouse. All of the operational companies within the Hempel Group are owned wholly or in part by the J C Hempel Foundation.

The company's statement '*Hempel – more than just a workplace*' has been used as the basis in this case study for looking more closely at how such a slogan is implemented in the company's development and how it influences the everyday lives of the employees.

#### Drivers for Change

Hempel has successfully positioned itself at the top end of the market, where quality and the development of new products is reflected in the price. This however, does not alter the underlying requirement of a constant focus on cost reduction.

In 2003, as part of the cost reduction plan, the board was presented with a 500 page consultancy report which highlighted the advantages of outsourcing production to Malaysia and closing down three production plants in Europe, among which was the Danish plant. The report indicated that the price per litre of paint at the Danish plant was almost 50% higher than other existing production sites.

In adherence with Danish law, two employee representatives had been elected as full members of the board. In studying the report in detail, they raised two important issues which needed to be addressed before a decision was made. The first was the logistical costs, transportation time and potential risk of political instability had not been adequately addressed in the report. Reliability and short delivery time were key to maintaining Hempel's position as market leader and there was uncertainty about whether a plant in Malaysia could ensure a speedy and timely delivery to ship-yards, wind-power stations and offshore in Europe.

Secondly, there was a huge unexploited potential for a reduction in the production costs at the Danish factory.

The conclusion was that the production continued at the factory in Lundtofte on the condition that it underwent an efficiency overhaul, which should result in a 25% reduction in the litre price. The management realised that to reach their target action needed to be both immediate and effective.

### **The Characteristics and Process of Change**

Half this target was met through the introduction of self-managing groups in production. It resulted in greater flexibility and less waste. Further cost savings were made by greater responsibility being given to the individual employees, making the role of some middle managers superfluous.

Each group designated a planning coordinator, a quality coordinator, an environment and safety coordinator and a staff coordinator. The intention was that these roles should alternate in such a way as to ensure all members of the group held a position at one stage. Job descriptions were developed for each function which clearly stated the area of responsibility, main function, Key Performance Indicators, cross-organisational relationships and finally a competency level required prior to taking up the job. A comprehensive educational effort was carried out in connection with this restructuring, the result of which was a general increase in skills and competencies among the employees. The biggest obstacle for the plant manager was to ensure that the employees spent the necessary time on the planning meetings.

As motivation to increase production rates, an agreement was made with the union to replace the annual wage negotiations with a production-related bonus. By exceeding the 19.7 million litre target by 2.1 million litres, each employee received a 16,000 DKK bonus.

The other half of the target was met by re-assessing the allocation of costs in the Lundtofte plant. The fact that the production site was located alongside the head office, where substantial innovation and development activities take place, had meant that some costs not pertaining to production, had been included in the production accounts. By introducing a more accurate cost split, it transpired that the production price was not as high as had been previously indicated.

The rescue of the production plant in Lundtofte was a resounding success, which was reflected in the annual report for 2003, where CEO stated "In 2003 our employees did a great job, which I am very proud of. In connection with the implementation of our new strategy it has become clear to us that in coming years we must invest much more in our employees in order to enable them to handle the major challenges that our customers want Hempel to shoulder for them."

In 2004 it was concluded that the operation had been a success and that production would continue in Denmark. At the same time it was stressed that there would still be a focus on continual efficiency improvements. This model of a flatter hierarchy and delegated responsibility worked satisfactorily for both employees and management for a number of years.

However in 2008, Group management considered that it was necessary to revisit the proposal to relocate the production plant. Various factors influenced this decision, among them were the increasing price competition in the market and the fact that the present production plant was close to residential areas, which made it impossible to extend the plant or build new facilities.

The top management of Hempel, therefore again asked permission to investigate the possibilities of cost reduction by relocating the production. This time the relocation was to Poland, where the wage level was one quarter of Danish wages. In Denmark it is estimated that the wages make up 60 % of the production cost. Taxes and other structural costs are also much higher in Denmark. The decision to keep the production in Europe accounted for the need to retain short distances between the production plant and the customer. This new situation was not a breach of the 2003 deal, but was still an unpleasant surprise to the employees, particularly as 2007 had been the most profitable year for quite some time.

Following a process of consultation and negotiation, in May 2008, 123 employees were informed that they will lose their jobs as of 31<sup>st</sup> May 2010, and until then their jobs are secure and full production is expected. As a result of the decision strike action was taken. Employees believe that they were owed more by Hempel and there was a sadness and frustration amongst work colleagues as the business was doing well and many felt they would struggle to find alternative employment. In order to ease the process, an HR plan was formulated based on the following principles:

- All employees should be treated in a fair manner.
- All employees should receive support in finding a new job.
- All employees should be offered a stay-on bonus.
- All relevant laws should be observed.
- SU and unions should be involved.

### Key Lessons

To establish resilience, trust between employees and management is required. Through many years Hempel has developed a corporate culture, where employees, employee representatives and management trust each other's motives, in particular situations of conflict, where cooperation is needed. The ultimate proof of the existence of such resilience is in the relocation agreement. The decision resulted in both conflict and disappointment from both sides, but an agreement, that both parties are satisfied with, was reached. The employees were rewarded a historically high 'stay-on' bonus and the opportunity of developing individual employability. The company achieved a secure production schedule right up until the day production can begin in Poland.

All case studies are defined by conditions that are unique and characteristic to the individual company and framework within which the development has taken place. In the case of Hempel, the company is owned by a Fund and the management has not been under pressure to maximise profits short-term to satisfy the expectations of the share holders. In the mission statement it is mentioned that *'The aim of the foundation is to preserve and continue all the Hempel businesses at home and abroad. The shares which make up the base capital of the Foundation cannot be sold, mortgaged, used as*

*collateral for loans, nor in any way be disposed of as long as the Foundation is in existence.'*

One other important underlying premise is the Danish tradition of close cooperation between social partners going back over a hundred years. This is reflected in the cooperation committee. Partly as a result of the close cooperation between trade unions and employers, there is a great confidence in the fact that conflict and disagreements can be solved through negotiation. This does, however, not preclude that dissatisfaction can be expressed through strike action, a fact also briefly relevant to the Hempel situation of 2008.

A crucial aspect of the organisation of the Danish labour market is the collective agreements between social parties. In the Hempel case the collective agreement system was supplemented by the legislation regarding employee representatives elected as full members onto company boards.

Finally the principles concerning fair compensation in relation to unemployment and an educational and training system, which underpins the qualification of employees and increases employability are at the core of the relatively successful outcome of the Hempel case. Not only has the national AMU-system allowed easy access to employee training to support the restructuring of production and reorganisation of work, but, in the planned 2 year phase out of production, the system will be used to improve the individual employee's skills to ensure their employability and facilitate many more productive years in the labour force.

These factors have collectively been named the flexsecurity-model. This model has among other formed the basis for the trade unions' constructive development of workplaces and more substantial restructuring of the labour-market, while always maintaining a focus on the company's international competitiveness.

When the project team visited in June 2008, the following challenges were faced within an environment of increasing raw material and energy costs:

- Skilled workforce continuity up to agreed closure date
- Maintenance of production levels, quality and cost controls
- Capturing inherent relevant process knowledge and transferring it to the new facilities
- Helping people to move on by evaluating competence and bridging training gaps

After visiting the production plant and holding discussions with management and workers, business representatives reported back on their observations. They found that there was:

- A mature relationship between workers and management both in intention and execution as exemplified by the existence and operation of the cooperation committee, the behaviour of senior management and the visibility of the chief executive officer during challenging times
- Pride in the company and unity of purpose in supporting the success and sustainability of Hempel
- A culture where trust and openness was an important feature

- A well developed sense of community
- An agreement on factors for success in challenging times. Formally in that production would continue for 2 years, hence guaranteeing job continuity, and in supporting the transition of people to new jobs. Informally in preserving and enhancing the reputation of Hempel as a good employer and a good place to work.

From experience observed elsewhere the project team concluded that:

- Fairness, respect and trust have to be built up before times of change.
- Employee resilience is difficult to build in low trust environments.
- The experience of a challenge can either be seen as one of learning or one of protection. The first leads to employees having an open approach to the future whereas the latter drives employees to defend the status quo.
- Engagement, enjoyment pride and a sense of contribution are necessary for continued high performance particularly when challenges increase.

### **Future Developments**

The following were considered important factors to help build employee resilience

- A need to build optimism in the workforce and to check that it is being sustained by regular short focused surveys.
- The sense of community needs to be maintained, to ensure a positive approach.
- Excellent communications need to be kept up to remind workforce of things to celebrate.
- Continue the sense of success through adversity so that departure with heads held high will reflect on both the company and the workforce.
- The quality and delivery of the outplacement service needs to be checked regularly so that workers still feel that Hempel maintains linkages with them and has not just outsourced the challenge to others.
- The strong paternalistic culture of the company can be both a positive and negative attribute as it has provided protection and support and needs now to allow individuals to grow, flourish and leave the secure corporate environment. This can be achieved by providing personal development programs for all - both leavers and those who remain to enable people to not just survive but to thrive. The programs should be different for leavers and survivors and trainers for the programs should be developed from the workforce and not the HR function.
- The period of change has not been 'a waste of time because the facility closed anyway'. It has provided team working skills that give workers more employability than others with the same technical skills.
- Make space for workers to talk about and share their hopes and fears and track the stories as learning points.

- Leavers and stayers should be celebrated in the same way so that sadness does not remain in the company and happiness is not seen to be particularly vested in either group. Any company function should involve all groups
- The 'graveyard' of the production unit has to be given a positive purpose so that it is not seen by the remaining workforce as a permanent reminder and threat.
- Recognise that other sites in the group will feel threatened and there will be a need to provide open and honest evaluation of their prospects. Reassurances will be challenged as there will be a view that the company reprieved the Copenhagen production facility then closed it.
- Recognise and manage false optimism that there may be a reprieve from the 2 year closure timetable and encourage workers to see that achieving the timetable is a measure of success.
- Consider whether people want to feel they have influenced the new site development. Some will and some will not. Recognise that it is legitimate to feel both pride in contributing and resentment in having something taken away. Seek to involve those who want to be involved in passing on their knowledge by helping develop training programs etc.
- Monitor any changes in performance - they may manifest themselves in changes in accident rates, products outside specification, ill health, stress. Performance measures could go up or down and the reasons behind the changes should be carefully investigated.