ECONOMIC COMMENTARIES

Enterprise downsizing in Norway

NO. 11 | 2016

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The fall in oil prices has led to a number of workforce reductions in the oil industry and oil-related industries. This commentary sheds light on the downsizing strategies used by Norwegian enterprises and the factors, if any that limit workforce reductions. The analysis is based on a survey of downsizing among Norges Bank's regional network contacts conducted in April and May 2016. Most workforce reductions reported by contacts were achieved through redundancies and natural attrition, while severance packages and early retirement were less common. The most important factor limiting workforce reductions reported by contacts experiencing a contraction in output is the need for minimum staffing levels.

Introduction

Norges Bank's regional network conducts interviews of its network contacts four times a year. The second survey in 2016 was conducted in the period between 25 April and 20 May[2]. The contacts were asked supplementary questions about workforce reductions, including downsizing strategies and any factors limiting workforce reductions in the event of a contraction in output.

The survey covered a total of 288 contact enterprises, with close to 190 000 employees, representing all industries including the public sector[3].

Downsizing

Defined in the survey as: *a planned/managed reduction of the workforce in all or parts of an enterprise that is independent of an overall decline in employment.*

Extent of workforce reduction

A total of 43 percent of contacts report that they have downsized in the past couple of years, although there are wide differences across industries. Virtually all oil service industry contacts report workforce reductions, and a high percentage of service industry contacts report having reduced the number of employees in all or parts of their operations. These are to a great extent enterprises facing reduced demand from the oil industry, but also include other enterprises facing reduced demand or that are downsizing as a result of digitalisation or the relocation of business functions to low-cost countries.

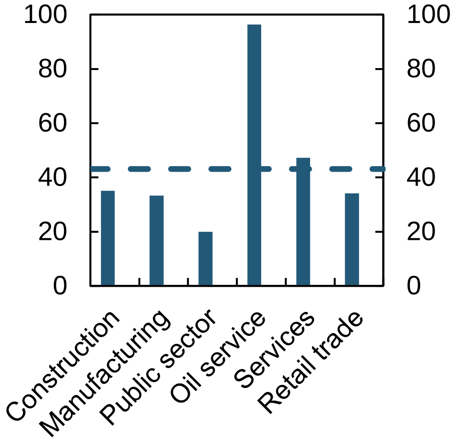
[1] The views and conclusions expressed in this publication are those of the authors and not necessarily those of Norges Bank and must not be reported as Norges Bank's views. We thank Njål Stensland, Anna Sandvig Brander and Einar W. Nordbø for insightful input and comments. Any errors or omissions are solely the responsibility of the authors.

[2] "Regional network – businesses and other enterprises contacted in connection with the 2016-2 survey" provides an overview of participating contacts.

[3] In the regional network, this is limited to the local government and hospital sector.

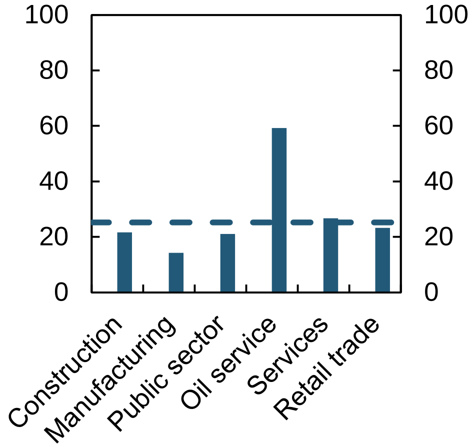
Around a quarter of contacts respond that they plan to downsize in the year ahead. Again, most of these respondents are oil service industry contacts, and around 60 percent of oil service enterprises are planning to downsize. The industry planning to downsize least is traditional manufacturing (excluding oil services), probably reflecting a weaker Norwegian krone.

Chart 1 *– Implemented workforce reductions in the past couple of years. In percent. All industries. The broken line shows the average of all contacts.*



Source: Norges Bank

Chart 2 *– Planned workforce reductions for the year ahead. In percent. All industries. The broken line shows the average of all contacts.*

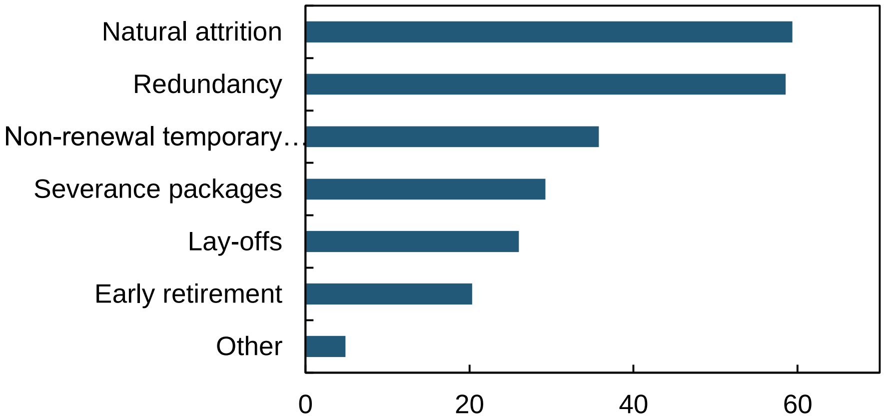


Source: Norges Bank

Downsizing strategies

An important objective of the survey was to learn more about the downsizing strategies used by Norwegian enterprises. Among the contacts that have reduced their workforce, natural attrition and redundancy are reported to be the most common downsizing strategies[4] (Chart 3). The use of severance packages is somewhat less common.

Chart 3 *– Downsizing strategies. Share of contacts that have reduced their workforce. Total. Percent.*



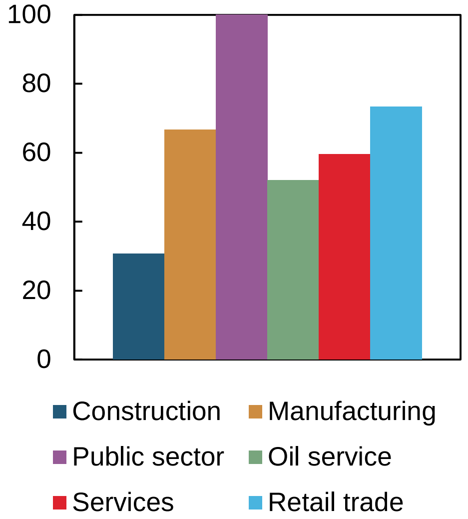
Source: Norges Bank

[4] This question was answered by almost all of the contacts that have downsized in the past couple of years.

Enterprises plan to use largely the same strategies for expected workforce reductions in the year ahead, with redundancies and natural attrition as the most widely used methods, while severance packages and early retirement will continue to be less common.

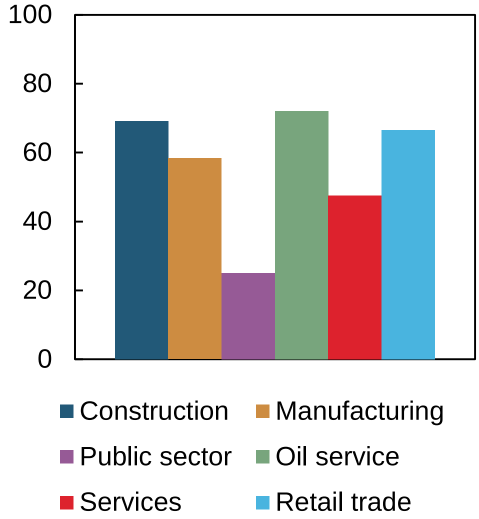
Of the contacts that have implemented workforce reductions, 59 percent did so through natural attrition, making it the most common method of downsizing, not least in the public sector. All of the public sector contacts that had implemented workforce reductions reported that they had achieved this by for example not replacing employees when they leave or retire. Natural attrition is also widely used in retail trade, manufacturing, services and the oil service industry (Chart 4), but is less common in construction, according to this survey.

Chart 4 *– Use of natural attrition. Share of contacts that have downsized. By industry. Percent.*



Source: Norges Bank

Chart 5 *– Use of redundancy. Share of contacts that have downsized. By industry. Percent.*

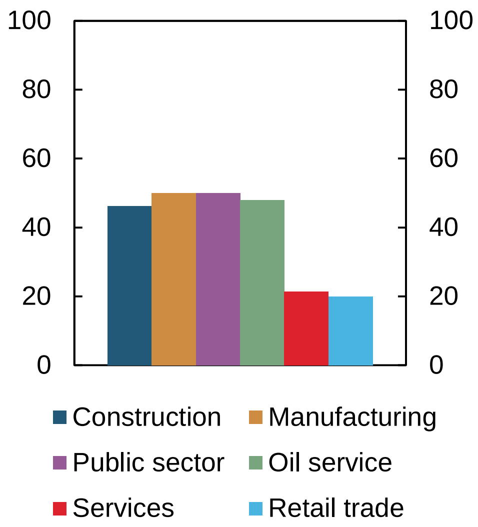


Source: Norges Bank

Redundancy is generally almost as common as natural attrition as a downsizing strategy. The public sector is the exception, where only about a fifth of enterprises that have downsized report that they have made employees redundant (Chart 5). The share that has used redundancy in the service industry is also slightly lower than the average of 58 percent. In the other industries, the share is slightly higher than the average.

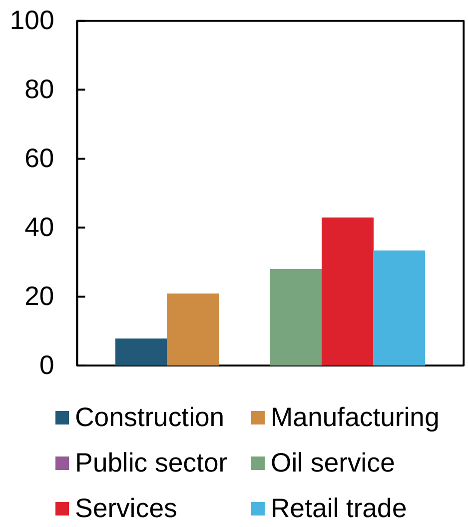
A total of 35 percent of the contacts that have downsized have achieved this by not renewing temporary contracts or by reducing the number of employees on short-term contracts. Approximately half of the contacts that have downsized in construction, manufacturing, the public sector and oil services have achieved this by not renewing temporary contracts or by reducing the number of employees on short-term contracts. A fifth of enterprises that have downsized in services and retail trade have used this strategy (Chart 6).

Chart 6 *– Use of non-renewal of temporary contracts/reduced short-term contracts. Share of contacts that have downsized. By industry. Percent.*



Source: Norges Bank

Chart 7 *– Use of severance packages. Share of contacts that have downsized. By industry. Percent.*



Source: Norges Bank

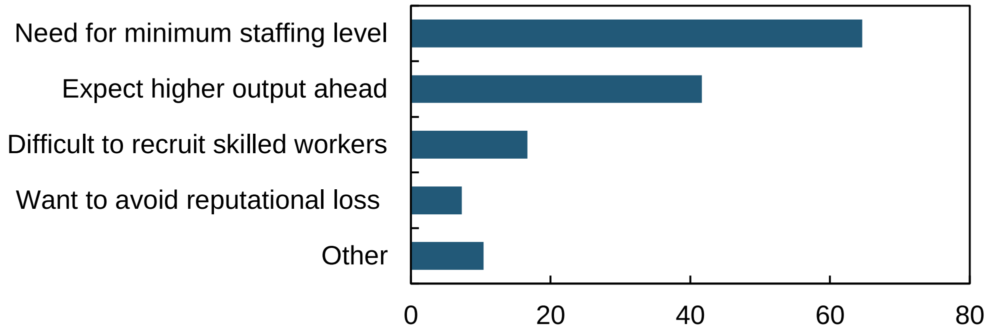
Severance packages have been offered by a somewhat smaller share, 29 percent, of contacts that have downsized. Using severance packages has been most common in the service industry, where this strategy has been used by slightly more than 40 percent of contacts (Chart 7). In retail trade and the oil service industry, the corresponding share is around 30 percent. In manufacturing, the share is 21 percent and 8 percent in construction. None of the public sector contacts have downsized using severance packages.

On average, severance pay is provided for just under five months, although severance payments range from two weeks to 20 months. Severance pay is most commonly issued over a period of three or six months. There is some variation in the average length of severance periods across industries: manufacturing has the longest, while oil services have the shortest severance periods. Enterprises plan to continue to use approximately the same length of severance period in the year ahead.

Factors limiting workforce reductions

During economic downturns, some fall in labour productivity is usually observed. This reflects labour hoarding, ie that changes in economic activity do not fully feed through to changes in the workforce. Enterprises retain employees despite a contraction in output, and profitability declines. In the survey, contacts were therefore asked what could limit workforce reduction in the event of declining output.[5]

Chart 8 *– "If your enterprise experiences a decline in output, what could limit workforce reduction?" Share of contacts reporting factors limiting workforce reduction. Percent.*



Source: Norges Bank

The most important factor limiting workforce reduction, reported by approximately two thirds of the contacts, is the need for minimum staffing levels (Chart 8). The factor with the second highest score, expected higher output ahead, is reported by just over 40 percent of the contacts as their reason for not downsizing in pace with the contraction in output. Approximately one sixth respond that it is difficult to recruit skilled workers and that they would therefore reduce the number of employees to a lesser extent than implied by the decline in output.

Conclusion

The primary contribution of the responses in this survey is to shed light on Norwegian enterprises' downsizing strategies.

The most common downsizing strategies among Norges Bank's regional network contacts are natural attrition and redundancy. A third of contacts also report that even if output declines, there are factors that limit workforce reductions. The most important factor limiting workforce reductions in the event of a decline in output is the need for minimum staffing levels. Expected higher output ahead is also a main reason why the decline in output does not necessarily result in corresponding negative impacts on the workforce.

In conclusion, it should be noted that the results are based on a survey conducted once on a limited sample of enterprises. The extent to which the results can be generalised is therefore somewhat uncertain. Repetition and expansion of the survey could provide a broader range of information and greater insight into downsizing strategies, both across industries and over time.

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[5] Approximately a third of all the contacts report that output has declined, but that different factors have limited workforce reduction in a situation of declining output. Among contacts that have downsized, half report that even without declining output there are factors that have limited workforce reductions.