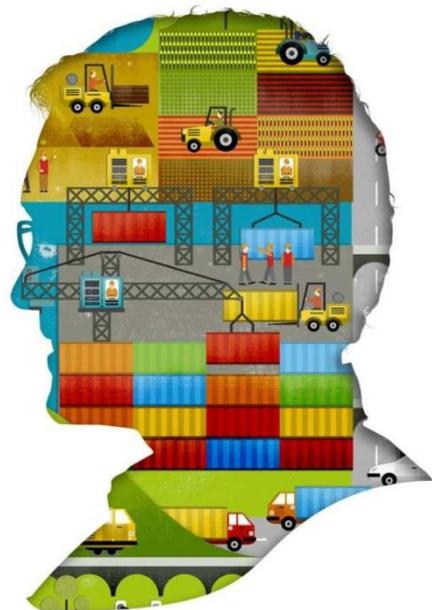


# Lessons learnt from large firm closures – literature review (volume 2)

Department of Industry, Innovation, Science, Research  
and Tertiary Education

22 July 2013



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# 1 Executive summary

The Department of Industry, Innovation, Science, Research and Tertiary Education (DIISRTE) engaged Nous Group to undertake research into lessons that could be learned from previous government responses to large firm closures. The final report is divided into three volumes, as follows:

- Volume 1 – Discusses the key findings that hold implications for future skills-related strategy and delivery in the context of the Commonwealth Government’s structural adjustment-related interventions.
- Volume 2 – A literature-based review of the rationale for and types of government interventions in cases of large-scale retrenchments, and available evidence of their relative effectiveness.
- Volume 3 - Findings from case study analysis of five government responses to structural adjustment events across Australia, spanning large, medium and minimalist responses.

This literature review is intended to help answer the question:

*‘what does the evidence tell us about the appropriate responses by governments to large firm closures, particularly in terms of keeping displaced workers in the labour market?’*

We have examined the available literature, exploring the theory that underpins the nature of government policy responses as well as case studies from the United Kingdom, USA, South Africa and Australia. The review draws on material published to date and accessible in a relatively short time frame.

Notwithstanding those constraints, there is a rather sparse range of evaluations or case studies relating to the Australian experience of large firm closures or the impact of more protracted structural adjustment events. Partly for this reason, we have examined five recent case studies that derive from field analysis rather than document review (refer volume 3).

This report canvasses the circumstances that give rise to large firm closures, the impacts of such events and the different types of government responses.

Some immediate lessons can be inferred from an analysis of previous responses, successful and unsuccessful. They are that the most successful policy responses: target both demand and supply sides of labour markets; engage workers and the local community to understand their needs; and reflect early planning conducted with a strategic, longer term view.

As part of that long-term view, understanding the risks to the industry and individual firms, as well as the nature of their workforces is key to assessing likely impacts and appropriate responses. It also can inform judgements about whether it is justifiable to seek to delay a closure, or to take other pre-emptive action to support job creation in other parts of the economy.

One of the themes running through the commentary is that, regardless of the cause for the firm closure, local circumstances matter greatly to the likely impact, while the timing of responses is crucial to their effectiveness. The more isolated an economy and the more reliant it is on one or two industries, the more susceptible it is likely to be to long-term impacts from large-scale retrenchments. Metropolitan regions already experiencing high unemployment and entrenched disadvantage are also at greater risk of a compounded, protracted impact of a firm closure.

Such closures are often predicted, however. This presents an opportunity for early identification of risks and timely engagement with the relevant employers and their workforces about their options and needs. It also enables decisions to be made about appropriate consultation and coordination arrangements for a planned response once a closure takes place.

Finally, while the attention is necessarily on the immediate response, the impacts can be drawn out for some time. It is therefore important to remember the longer term needs of workers who may still be seeking work a year or more after being retrenched.

## 2 Introduction

Well-functioning economies shift resources, including people, to the areas where they can be most efficiently employed. This process has the effect of increasing the level and quality of production in the economy and – in tandem with innovation and other productivity enhancements at firm or sectoral level – contributes to increases in standards of living.

Changes in employment occur in firms or other organisations as they expand, contract or close. The scale and speed of job losses will vary according to the underlying causes, be they firm-specific or related to general structural shifts in the economy.

Major job losses arising from either cause may occur gradually or abruptly. Abrupt changes tend to be highly visible and can be disruptive for communities where the local or regional employment market does not have the capacity to absorb the displaced workers. The resulting increase in unemployment and reduced incomes for other local businesses can cause wider social problems in the affected communities, notwithstanding the potential long term benefits to the national economy.

This report reviews selected literature on significant job losses and localised economic and/or social disruption caused by firm closure or industry rationalisation. The purpose of the review is to consider the available arguments and evidence for government responses to such events.

The next section discusses in more detail the causes of the job losses, surveys the broad trends driving such events in Australia, and highlights recent examples from the Australian economy.

Section 4 outlines the consequences of these events for affected individuals, the economy and the regions in which they occur.

Section 5 discusses the role of government in responding to the events by looking at a range of views from economic, industrial and political perspectives.

Section 6 presents the range of policy responses available to governments while Section 7 focuses on governance and community engagement.

Section 8 offers some concluding observations about the implications of these findings for Australian policy-makers.

## 3 Firm closures/major rationalisations occur for a range of reasons.

Significant job losses associated with large firm closure or rationalisation usually reflect the interplay of three factors:

1. Changes in the market-place – the global economy is constantly changing as trade patterns adjust to changes in consumer demands, product innovation and shifts in comparative advantage. This process naturally leads to the rise and fall of industries in a country or region.
2. Managerial decisions – managers make decisions about how to structure production based on their interpretation of the operating environment. Changes in economic or political circumstances may, therefore, prompt decisions to close parts of an operation or shift it to an alternative location. Firm closure can also result from poor managerial decisions, for example where managers fail to identify and respond to market changes.
3. Changes in public policy – governments provide support for businesses through broad-based measures, such as infrastructure investment and currency manipulation, and more direct measures, such as industry subsidies and tariffs. Changes in government priorities can lead to the shifts in levels of support that affect the viability of individual businesses or industry sectors.

The relative contribution of these factors to a final decision to shut down or downsize varies case by case. This is explored in more detail below.

### 3.1 Long-term market trends and short term cycles have driven firm closures in developed economies.

The dominant structural trend in developed economies over recent decades has been the shift in employment from manufacturing to services. It has resulted in part from the entrance of more efficient competitors, driven initially by lower labour costs and subsequently by more sophisticated technology. As these competitors (particularly those in Asia) got better at producing quality manufactured goods, firms in developed countries found it difficult to compete, leading to closures or significant downsizing.

This shift in comparative advantage explains the demise of the ship-building industry in the UK and Northern Ireland, for example (see Shuttleworth: 2005; Tomaney: 1999; Hinde: 1994) and of the apparel industry in the USA (Collins and Quark: 2006).

Other market factors that can contribute to large firm closures or similar ‘displacement events’ include:

- Entrance of cheaper or superior substitutes – reduces demand for a product and may make it obsolete. For example, demand for coal has declined in countries like the UK and South Africa as alternative energy sources have become available (Henderson and Shutt: 2004; Nel *et al.*: 2003).
- Depletion of resources – can halt industries reliant on extraction such as mining, fishing and logging. For example, depletion of coal deposits was another contributor to the decline in coal mining in the KwaZulu-Natal region of South Africa (Nel *et al.*: 2003).

Shifts in the business cycle and shocks unrelated to changes in productivity can also cause enduring structural changes in the economy. A fall-off in demand, inflated exchange rates or shocks to input prices can all reduce the profitability of firms and potentially lead to shut-downs or mass lay-offs – that is, if they are sustained over a long period and/or not countered by policy interventions.

## 3.2 At the enterprise level, failure to read the environment or adapt can ultimately trigger a firm closure.

In addition to the cyclical or structural trends outlined above, firms need to deal with changing customer behaviour and preferences, and with changes to the regulatory requirement (e.g. with respect to work practices). Businesses must adapt to remain successful (Hubbard *et al.*, 2007). Those that do not adapt, become unviable, or are weakened to the extent that they are more susceptible to new shocks or the entrance of competitors.

The capabilities of managers and owners, in particular, to respond to changes can have just as much bearing on the fortunes of the businesses as the changes in external environment. This is important when we think of the relative capacities of different enterprises to innovate and the ability of firm leaders to identify threats as well as respond to them effectively. Unless businesses adapt their strategy to reflect both external changes in the environment and drive continuous improvement internally they will continue to be challenged by entrepreneurial businesses (local or international) that change the mode of competition (Hubbard *et al.*, 2007).

### Example of poor strategic planning leading to firm closure

#### *Ansett 2001*

Strategic errors made by Ansett Australia's (Ansett) board and owners were the key contributors to its collapse. In 1989 the Australian interstate air travel industry was deregulated. Until that time, Ansett and its rival Qantas were the only two providers under the government supported 'two-airline' duopoly.

Ansett's corporate strategy reportedly stayed rooted in assumptions that reflected the former duopoly arrangements. The company expected market share to remain fairly stable. It therefore failed to adopt strategies to reduce costs in the same way as Qantas had following the change in policy – by outsourcing, adopting new HR policies, dropping non-core activities etc.

Ansett made a series of strategic errors that further weakened its position. These included running a fleet with multiple types of aircraft (giving rise to high maintenance and training costs), inadequately investing in capital (meaning the company ran on antiquated systems and aircraft) and remaining committed to revenue-draining overseas ventures for too long.

The competitive environment changed with the aggressive entry of a discount airline, Virgin Blue, on the company's most profitable flight corridors in 2000. Because of its failure to adapt and reduce its cost base, Ansett was unable to sustain competition and ceased operating (Whyte and Prideaux: 2006; Weller: 2008).

### 3.3 In Australia, large scale job losses have been driven by economic reforms and a shift to a services-based economy.

Governments in developed countries have withdrawn from markets over the last 50 years. This has had a significant influence on the location and composition of production around the world, leading to structural change and the attendant displacement of jobs.

The Australian economy has been a part of this trend, with three key developments driving major changes to economic activity and employment:

- economic policy reforms (trade liberalisation, deregulation and privatisation) that began in the early 1970s and were strengthened in the 1980s and 1990s
- the connected trend towards a more service-based economy, which accelerated after the economic reforms of the 1980s and 1990s
- a resurgence in demand and rising prices in the minerals and energy sectors, beginning around 2001, with a resulting increase in Australia's terms of trade.

#### Economic policy reforms

A series of microeconomic reforms transformed the Australian economy and contributed to an increase in productivity as many trade-exposed industries reorganised to become more globally competitive and formerly state-owned enterprises were subjected to greater market disciplines.

From 1983 Australia deregulated its financial markets, floated the dollar, largely dismantled tariffs, privatised public sector companies (at the state and national level), ended subsidisation of loss-making industries, and reformed the tax system.

In the 1990s, the Keating Government introduced the National Competition Policy, enterprise-level wage bargaining, a national electricity market and continued privatisation of state-owned businesses. The Howard Government further reduced tariffs, and pursued further significant labour market and tax reforms (e.g. individual-level bargaining, the GST).

Largely as a result of these changes there were significant job losses in highly protected industries (such as steel, automobiles, textiles clothing and footwear (TCF)) and in formerly state-owned utilities and services (such as electricity, water and transport)<sup>1</sup>.

#### A shift towards a services economy

In Australia there has been a trend away from manufacturing and towards the services sectors. The removal of barriers to international trade and investment resulted in high volume, low value manufacturing shifting offshore, where wages and production costs were significantly lower. On top of this shift in global competitiveness, local demand for services in Australia increased in relative terms as greater numbers of time-poor households chose to outsource a variety of personal services.

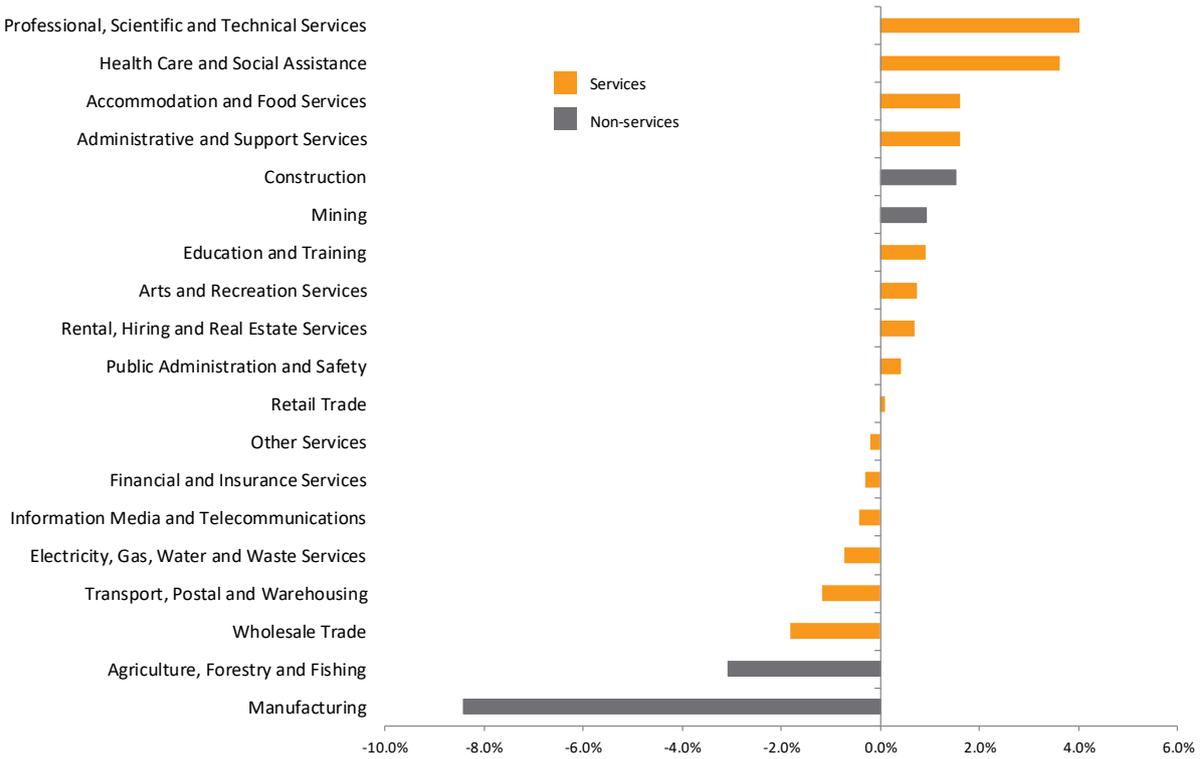
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<sup>1</sup> The majority of the literature focuses on this period of significant economic reform, not only in Australia but around the world. It is not unreasonable to assume that in the short to medium term most of the lessons learnt from this period will still apply, especially in those sectors still in the middle of this long-term reform process, such as automotive, forestry, TCF and steel. However the changing nature of employment (e.g. more transient workers, different expectations around tenure, greater emphasis of individuals to take control of their employment pathways) in more 'modern' industry sectors, such as finance, business services or tourism could require a re-assessment in the future.

Between November 1984 and May 2012, the share of Australian employment in services increased by nine percentage points, from 69% to almost 78%, with the largest falls in employment shares in manufacturing and agriculture, fisheries and forestry (Figure 1).

Related to this is the shift from ‘blue-collar’ employment to ‘white-collar’ employment, which has had the most disruptive effect on regions that traditionally relied more heavily on manufacturing (e.g. in South Australia and Victoria).

Figure 1: Employed persons by industry - change in % share of total employment Nov 1984 to May 2012



Source: ABS Cat No: 6291.0.55.003 - Labour Force, Australia, Detailed, Quarterly, May 2012 (trend).

Industry	Per cent change
Manufacturing	-8.4
Agriculture, Forestry and Fishing	-3.1
Wholesale Trade	-1.8
Transport, Postal and Warehousing	-1.2
Electricity, Gas, Water and Waste Services	-0.7
Information Media and Telecommunications	-0.4
Financial and Insurance Services	-0.3
Other Services	-0.2
Retail Trade	0.1
Public Administration and Safety	0.4
Rental, Hiring and Real Estate Services	0.7
Arts and Recreation Services	0.7
Education and Training	0.9
Mining	0.9
Construction	1.5
Administrative and Support Services	1.6
Accommodation and Food Services	1.6
Health Care and Social Assistance	3.6
Professional, Scientific and Technical Services	4

This shift from blue collar manufacturing and agriculture based employment to white collar professional and personal services-based employment has changed the characteristics of the workforce. The Australian workforce is more educated (or skilled) than 20 to 30 years ago, and workers in these white collar sectors (especially in the professional services) tend to be more adaptive to change imposed on them, are more likely to initiate career change themselves and are able to conceptualise and communicate more effectively about what they need to do to improve their employment prospects.

Correspondingly the nature of employment is changing with a larger proportion of the workforce willing to change roles, careers or locations more often, with the traditional blue-collar concepts of employment (e.g. working for the one business for 30+ years etc) declining rapidly.

## Rise of mining and terms of trade

One exception to the trend away from product-based industries is the mining sector. The development of China (and, to a lesser extent, India) has seen a rapid and largely unexpected surge in demand for mineral resources and energy. This followed almost two decades of global underinvestment in new resources. As a result, growth in demand outstripped the growth in supply, leading to a rapid increase in global commodity prices.

As a major producer of raw minerals and energy, Australia has begun to supply large volumes to China and other fast-growth economies around the world. Driven mainly by the mining boom, the nominal value of the Australian dollar (AUD) has appreciated strongly, which has reduced the attractiveness of Australian manufacturing and service exports. The loss of international competitiveness means that the sectoral pattern of output growth has differed markedly between the mining (and mining-related construction) sector and other sectors. The latter have therefore seen significant job losses and an accelerated pace of structural adjustment.

There is emerging evidence that Australia's terms of trade peaked in the middle of 2011 and that we could see a further moderation resulting from lower Chinese demand (the consequence of a fall-off in China's exports related to the depressed global economy) and increased commodity supply as earlier investments move into production.

Nevertheless, the terms of trade and high AUD are expected to remain above historical averages as China and other major developing economies continue to transition from low to middle/higher national incomes. (Stevens, 2012) This raises policy and practical challenges in managing the implications for other trade-exposed sectors (such as manufacturing, agriculture, tourism and education services) while still meeting the continuing demand for labour and capital in the resources sector.

## 4 Large-scale job losses affect individuals, the economy and regions differently.

Workers displaced as part of major firm closures or retrenchments often experience poor labour market outcomes for extended periods of time. These negative effects are not felt uniformly; although some level of hardship is the typical experience, particular groups tend to struggle more than others. The effect of a mass-layoff also extends beyond the individuals who lose their jobs and is felt keenly in communities that are reliant on one or two industries.

### 4.1 Displaced workers tend to have a difficult time for some years after losing their jobs.

The circumstances of people who lose their jobs as part of a large firm closure or mass retrenchment are different to those of other unemployed people. Relatively-speaking, they can have some advantages in that they are compensated to some degree and do not have the stigma of having their employment terminated due to poor performance.

However, on the downside, they:

- do not choose to leave their positions and therefore are unlikely to have planned for a job change
- become unemployed at the same time as a large number of people with similar skills.

Moreover, the background and profile of displaced workers – particularly those in declining manufacturing sectors – can exacerbate the challenges associated with finding alternative employment. This in turn can have consequences not just for re-employability and future livelihood, but for their mental health, relationships and connection to their communities.

#### 4.1.1 Workers affected by large scale job losses experience poor employment outcomes.

A large proportion of people who lose their jobs through large-scale redundancies have a difficult time finding sustainable and rewarding employment (Armstrong: 2008; Weller and Webber: 1999; Beer: 2008; Weller: 2008). This is a consistent theme in the literature; almost all relevant studies found that significant proportions of displaced workers:

- were able only to find work in inferior conditions
- remained unemployed for extended periods
- withdrew from the workforce altogether.

There are exceptions to this trend such as in demand occupations where in some cases they may be better off. However, individuals in this category generally make up a small percentage of displaced workers.

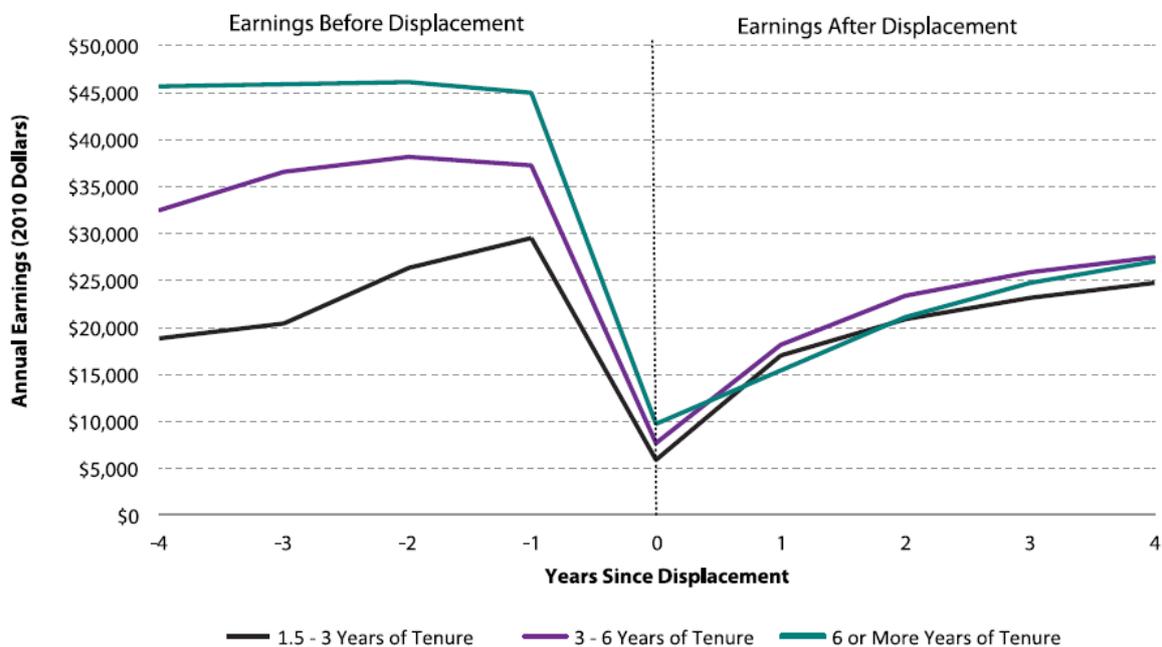
## Post-redundancy employment is often on inferior terms

Those displaced workers who manage to find employment tend to take up unstable positions, for less pay and/or inferior employment conditions, specifically:

- Casual, part-time and temporary contracts – after the Mitsubishi closure in Lonsdale, surveyed participants who were employed often reported that they were going from one short-term contract to another as this was the only employment they could find; 20% were casual or part-time a year after (Armstrong *et al.*: 2008, pp. 346-7) and many had had multiple jobs in that time (Beer: 2008, p. 325). This experience is reflected in many other studies of workers' experiences (Tomaney *et al.*: 1999, p. 408; Collins and Quark: 2006, p. 306; Hinde: 1994, p. 720).
- Lower pay than their previous positions – this outcome may reflect unsustainably high wages at the previous employer and/or limited demand for the displaced person's skills (Armstrong: 2008; Tomaney *et al.*: 1999, p. 408; Collins and Quark: 2006, p. 298-9) but nevertheless puts genuine financial pressures on people who have been accustomed to higher salaries.

It is not uncommon for displaced workers to take jobs where there is a lack of recognition of prior skills, poorer work conditions, and inadequate human resource management and occupational health and safety practices (Beer: 2008, p. 325; Collins and Quark: 2006, p. 306; Hinde: 1994, p. 720). For some, such experiences may reflect a period of transition to stable work better matched to their experience and expectations. For others, it may represent a new 'normal' where the person will never regain the earnings, conditions and status of the old job. This is most evident in earnings where research of displaced workers by prior tenure in the USA provides a stark illustration of this effect:

Figure 2: Earnings of displaced workers by prior tenure (Jacobson et al, 2011)



Even if these experiences are only temporary, they still represent a cost to the individuals in the form of financial and psychological stresses.

## Redundancy is often a precursor to long periods of unemployment

Studies of workers caught up in large scale redundancies often find that a significant proportion are not able to find any work at all for sustained periods. For example, after the closure of the Mitsubishi plant

in Lonsdale, 13% of respondents to a survey reported having been unemployed for a whole year after the closure (Armstrong *et al.*: 2008, p. 346).

The severity of this experience is closely related to the general economic conditions at the time of the closure. Labour market outcomes are significantly worse in times of economic downturn. For example, the closure of North East Shipbuilders' shipyard in Sunderland, North-Eastern UK in 1988 occurred at a time of general decline in the region and declining national GDP growth. A survey of redundant workers sometime after the closure revealed that workers took 103 weeks on average to find new employment (Hinde: 1994, p. 717).

Such sustained periods of unemployment represent a significant productive loss to the economy: directly in the idleness of labour and indirectly in the decay in skills and other human capital associated with sustained periods of unemployment that means that workers are less productive when they do eventually find work.

### Redundancy frequently triggers complete withdrawal from the workforce

Retrenchment is often viewed as a shock to the career trajectories from which affected workers will recover in time, but this is not the case for everyone. Many workers will not be able to reposition themselves in the labour market at all due to age, domestic duties or other factors. For these people, being retrenched from a job can represent the beginning of a sustained decline in career prospects or the end of viable employment opportunities altogether.

In response to this or in the face of other difficulties in the labour market, many workers leave the labour force altogether after being made redundant (PC: 2000; Hill *et al.*: 2011; Hinde: 1994; Armstrong *et al.*: 2008; Borbely: 2011). For example, a longitudinal study of retrenched textiles, clothing and footwear (TCF) industry employees in Australia found that over 10% of workers were not in the labour force at all four years after retrenchment, excluding those who had reached retirement age (Weller and Webber: 1999, p. 107).

This withdrawal represents a human cost in terms of lost incomes for the workers and also a significant economic cost in terms of the loss of labour in the economy.

#### **Example of workers' labour market experiences after redundancy**

##### *Mitsubishi 2004*

Workers retrenched from Mitsubishi in 2004 experienced significant job insecurity after being retrenched. Only 34% were in full-time work a year after redundancy. Of the remainder, 20% were in casual or part-time work (and most wanted full-time positions) and 30% had not participated in the labour force at all in the last year – including 13% who had been unemployed the whole time, 9% who had retired (many of whom would prefer to be working but had stopped looking because of difficulties in finding a job) and 4% who were out of work due to disability (Armstrong *et al.*: 2008, p. 346). This compares to the broader economy where approximately 68% were in full-time work, 27% in part time and 5.1% unemployed (ABS,2005).

Among those who had held jobs over the year since their retrenchment, the majority reported having held multiple positions, with 34% reporting having had three or more jobs in the last year (Armstrong *et al.*: 2008, p. 347).

### **Example of workers' labour market experiences after redundancy**

#### *TCF industry in the 1990s*

Workers experienced considerable instability for an extended period after retrenchment. Only a little over half the original sample had found a stable job after four years; there was an initial quick transition into jobs for some in the first few months after redundancy but slow growth over later years in the proportion that had stable work. There was, furthermore, a lot of movement between unemployment and employment with “a total of 2109 post-retrenchment labour market transitions recorded for the 605 cases” (Weller and Webber: 1999, p. 108). There was also an increase in the proportion who were classed as ‘not participating’ and ‘retired’ over four years (Weller and Webber: 1999, p. 107).

## **4.1.2 Some workers experience psychological problems after job loss**

The social costs of unemployment to individuals are well documented. Serious mental health issues including loss of self-esteem, depression and sometimes suicidal tendencies (McKee-Ryan: 2009; Beer *et al.*: 2007; Nel *et al.*: 2003; Hinde: 1994; Tomaney: 1999; The Age: 2009; Armstrong *et al.*: 2008, p. 344) are common amongst displaced workers and are not limited to those that become long term unemployed. Workers' perceptions of the procedural justice they received in the retrenchment process, the extent to which their social lives were embedded in their workplace (McKee-Ryan *et al.*: 2009; Weller: 2007, p. 5) and the affected workers' experiences after the initial retrenchment are key sources of psychological distress.

Post retrenchment, workers have been found to experience a number of shocks to their identities as workers, members of a close interconnected community and as learners (Keating, 2011). Financial or social pressures can prompt workers to take on work in unsatisfactory conditions that magnify issues with self-esteem or depression (McKee-Ryan: 2009; Hinde: 1994; Tomaney 1999) or put pressure on family relationships (Hinde: 1994). For example, Sally Weller finds in her study of retrenched Ansett workers that “...these people continued to suffer new hurts – in job rejections, asset fire-sales and unravelling personal relationships...” Chains of events such as these can turn into a cycle of reproduction and amplification of psychological problems, rather than the gradual adjustment to a shock (Weller: 2007, p.12).

### **Example of workers' psychological experiences after redundancy**

#### *Ansett 2001*

Many workers retrenched from Ansett in 2001 suffered from emotional distress after suddenly losing their jobs and facing difficulties in the labour market and meeting financial commitments. The emotional impacts of job-loss can continue long after the event as rejections at job interviews and financial and relationship stresses continue to perpetuate the emotional response to the initial shock. Five years after the collapse, a survey of retrenched workers found that 19% had not regained their sense of well-being since losing their jobs. It has been argued that the emotional distress felt by retrenched workers may also have been exacerbated by the government's decision not to intervene (Weller: 2007, pp. 5-6).

### 4.1.3 The incidence and impact of job-loss falls unevenly on different types of workers.

Particular groups of workers are more likely to be retrenched than others, and workers with particular characteristics experience the issues discussed above more acutely.

#### Incidence of retrenchment

Identifying the profile of workers most likely to be affected by large firm closures or mass retrenchments is difficult. This is because the events are caused by a multitude of interrelated market, policy and managerial factors, as discussed in the previous section.

One approach is to examine the profile of workers most likely to be retrenched, regardless of the scale of retrenchment. A review of Australian and international literature by Murtough and Waite (2000) provides some insight into the likelihood of worker retrenchment. This study examines relationships with all retrenchments, not just those resulting from large-scale closures or layoffs, their key findings were that:

- tenure of longer than five years is associated with a significantly lower chance of being retrenched (p. 8)
- a high proportion of retrenchments are among the less educated (p. 9)
- men between the ages 35-54 are less likely to be retrenched than those in younger or older age groups (p. 9)
- men are more likely to be retrenched due to cyclical forces than women (p. 10)
- people who work in low-skilled occupations are more likely to be retrenched than others (pp. 10-11).

These findings help identify the more likely targets of partial closures (short-tenured, less-educated, not-middle-aged men in low-skilled occupations). Beyond this, the research does not shed light on the characteristics of workers who are more likely to be made redundant as part of a full firm closure and it is not possible to make this distinction in the dataset used by Murtough and Waite (2000).

However, given that manufacturing had been most significantly impacted by competition from countries with low labour costs, we can reasonably infer that lower-skilled, older male workers (who dominate the sector) are the most likely victims of large firm closures. This is certainly the typical profile of workers who feature in available case studies and arguably present the greater challenges for placement into sustainable jobs post-retrenchment. We emphasise that some caution must be exercised about such inferences and generalisations, as closures can occur in any sector and, as we have seen, may be less connected to structural adjustment and directly the result of poor management decisions.

#### The negative effects of retrenchment are not distributed evenly.

Descriptions of the relationship between personal characteristics and post-retrenchment experiences are much more readily available. Australian and international studies find that although the majority of workers experience poor labour market outcomes, these experiences are by no means homogenous. Retrenched workers who are less-skilled, older and female often have less chance of securing suitable employment with adequate conditions post-retrenchment than their skilled, young and male counterparts.

- Less skilled or educated employees are consistently found to have worse experiences post-retrenchment than other workers. This is possibly because their lack of skills makes it more difficult to differentiate themselves in the labour markets meaning that they are competing

against a larger cohort of unemployed people for jobs (Bailey *et al.*: 2011; Hinde: 1994; Beer: 2008, p. 324).

- Older workers find it harder to secure work and are also more likely to leave the labour force altogether after retrenchment for a variety of possible reasons. Their difficulties in the labour market are probably driven by perceptions that, being older, there is less value in investing training time with them for a new employer. Older workers are also likely to have more deeply embedded financial and social ties in their location that will limit the spatial reach of their job search and, hence, expose them to fewer opportunities. These factors combine to make the experiences of older workers in the labour market worse and contribute to the higher likelihood they have of retiring from the labour force altogether (Murtough and Waite: 2000, p. 43; Cavaco *et al.*: 1999; Hinde: 1994, p. 716; Weller: 2008).
- Women experience worse labour market outcomes post-retrenchment, largely because they are significantly more likely to withdraw from the labour force than men. Such tendency could be driven by cultural pressures to stay at home or also the pressure of domestic duties; women with dependents are less likely to find new employment than those without dependents (Murtough and Waite: 2000, p. 43; Cavaco *et al.*: 1999; Hinde: 1994, p. 716; Weller: 2008).

#### **Example of workers' profiles affecting experiences post-retrenchment**

##### *TCF industry in the early 1990s*

In their analysis of a 1,640 TCF employees' experiences after retrenchment, Weller and Webber (1999, p. 118) found that a higher likelihood of finding stable employment was found to be significantly correlated with:

- better economic conditions
- being a young English speaker
- having dependents (for men)
- not having dependents (for women)
- having formal qualifications (for men)
- having experience
- having general rather than TCF skills (for men)
- experiencing shorter periods of unemployment and shorter periods of part-time or casual work (for women).

## 4.2 Large scale retrenchments have major side effects.

### Large firm closures cause indirect job loss.

Large firm closures have flow-on and multiplier effects on the economy that can lead to indirect job loss (Tomaney: 1999, p. 402; Chapain and Murie: 2008, p. 315) for example:

- **Flow-on effects** are those caused by the reduction in purchases by, and supply from, the closed firm. Depending on the degree of reliance of organisations in the closed firm's value chain on its existence, the cessation of this activity can lead to redundancies in up or down-stream businesses.

- **Multiplier effects** are those caused by the reduced demand for goods and services by laid-off employees as their income falls. Depending on the significance of the closed firm to the local economy, this drop-off in demand can lead to further redundancies in businesses providing goods and services to its employees.

For example, after the redundancy of approximately 2,000 workers in the Selby coal mine closure in Yorkshire, UK, another 900 or so jobs were lost indirectly in the mining engineering and construction industries (Henderson and Shutt: 2004, p. 30). These indirect job losses were in addition to the effects felt by ancillary businesses through the contraction of consumption by displaced workers. The latter flow-on effects are hard to measure but in the case of the Selby coal mine, estimates of the further job losses were as high as 4,000 (ibid. pp. 30-31).

While indirect employment loss is common for any large firm closure, the intensity varies somewhat depending on the level of value-adding that was done within the business and also on the amount of firm's value chain sourced locally (Hinde: 1994). That is, if the firm is a significant employer but imports all its inputs from other regions, the flow-on effects of its closure will be significantly less than if it sources everything locally.

## Large firm closures/major retrenchments can be beneficial to businesses that remain in the industry.

Industry-specific labour markets can change structure in favour of employers when flooded with applicants offering similar skills after a large firm closure. This increase in supply gives remaining employers leverage to shape new employment contracts in ways that suit them better. Hence, after the exit of a large firm, competing employers may start to offer less secure contracts, for less pay and with worse conditions than the industry norm prior to the firm's closure. These changes will affect both displaced employees who get jobs with these employers but also anyone else looking for a job in the industry.

Large firm closures also change the competitive landscape in the markets they leave. If a large firm closes but demand for their product remains substantial, the remaining suppliers will have an opportunity to raise prices, capture market share or both. This outcome is more likely when a closure results from poor strategic management than from changes in government policy or market conditions (i.e. where competitors may be equally affected).

### Example of the effect of single large firm's closure on an industry

#### *Ansett 2001*

The closure of Ansett had significant benefits for its competitors. The airline's collapse left a large hole in the market that allowed the competitors of the day – Qantas, Jetstar and Virgin Blue to increase their market share (Bamber *et al.*: 2006, p. 78). The ability to move into the space left by Ansett allowed the competing airlines to weather the storm left in the aviation industry after the terrorist attacks on September 11, 2001. Qantas, for example, was able to employ capacity that had been left idle in the USA after September 11 to fill the gap in demand in Australia (Whyte and Prideaux: 2006, p. 892).

Furthermore, the influx of a large number of aviation workers into the market affected the working conditions for everyone in the industry. The oversupply of labour enabled the airlines to "...create new marginal segments in their internal labour markets..." that were made up of a greater number of flexible positions than previous (Weller: 2008, p. 2210-11). In other words, Ansett's collapse allowed the other airlines to employ human resource management strategies that reduced conditions and weakened job security for other employees in the industry.

### 4.3 The effects of large-scale job losses are felt more intensely in narrowly-based and localised economies.

Firm closures or retrenchments involving significant job losses can have broader negative impacts on regions, particularly where the local economy is isolated or not well integrated with the state or national economy.

In the situation where the closed firm is a significant employer and its value chain is located locally, the flow-on and multiplier effects discussed above will be felt acutely because displaced workers will face high levels of competition for the jobs that are available. Furthermore, a lack of diversification in the local economy reduces available employment opportunities if a closure is part of a dominant industry's decline.

Many rural communities in the USA faced significant redundancies after the signing of free trade agreements in the 1990s. Apparel and textile manufacturing had been the sole or primary employer in many of these communities. Apparel manufacturing accounted for 31% of total employment in the 1990s in Winnebago County, Wisconsin, the vast majority of which jobs were lost after the closure of the Osh Kosh B'Gosh manufacturing plant in the face of international competition (Collins and Quark: 2006, p. 292-3). Workers in these regions not only had to find jobs in new industries but also had to face strong competition.

The lack of diversification also poses problems for regions experiencing the decline in a significant industry or firm because the narrow skill base and deficit of entrepreneurship will reduce their ability to adjust to change (Nel: 2003; Bailey *et al.*: 2011; Collins *et al.*: 2006; Hill *et al.*: 2011; Beer: 2008, p. 325).

The closure of the major employer in a locale may also prompt people to move away from the community to find work elsewhere. This trend could lead to a decline in the community capital and reduce the likelihood that the region can recover from the shock, as the most mobile and potentially employable are the most likely to leave the area, further entrenching disadvantage (Nel *et al.*: 2003; SESAIIF; Collins *et al.*: 2006; Hill *et al.*: 2011).

Regional economies within major metropolitan centres can also be highly dependent on one or two large employers. If there is a major firm closure in an already-disadvantaged area of a city, and that firm employs people primarily from within the locality, the impacts can be significant. While the sheer scale and density of urban economies can make it less fragile than a smaller isolated one, there is a compounding effect of adding retrenched workers to a local market with unemployment and a low skills base. That compounding effect is felt in low and declining interest by investors, a low and declining level of local capital and wealth (including in terms of local government capacity to invest) and an additional layer of family and social stress that can amount to a 'tipping point' entrenching multi-generational disadvantage.

By the same token, it should not be assumed that all disadvantage communities are 'broken' and lack resilience. Oftentimes – in the case of struggling rural and metropolitan economies – social capital is high such that those in need can support each other through tough times.

## 5 There are differing theories on the appropriate government response to major job losses.

This section briefly examines the differing economic perspectives on the role for government in managing major job losses associated with the closure of large firms. It does not address the related issue of anticipatory government interventions for particular firms or industry sectors intended to counter structural or cyclical pressures to downsize or close operations.

There are two broad theories for thinking about the appropriate responses to managing the economic and social impacts of firm closures and resulting major job losses:

- The institutional perspective – that emphasises the role of market failures in impeding effective adjustment to major job losses and the resulting need for a range of government interventions to correct them, addressing both the demand for, and supply of, labour.
- The neo-liberal perspective – that emphasises the role of labour supply, particularly workers' attitudes in inhibiting rapid absorption of retrenched labour, and sees any government interventions being narrowly targeted on helping workers adjust their behaviour.

These theories are not responses in themselves but influence the choices Governments make as they draw from a broad spectrum of possible policy interventions (including training) in response to a large firm closure. Possible policy interventions are discussed in detail in Section 6.

### 5.1 The institutional perspective – address the sources of market failure

The institutional perspective emerges from the premise that market failures can be mitigated and / or corrected through a range of government interventions. These failures arise when the normal demand and supply mechanisms in the market fail to produce the most optimal outcome for society.

In the context of significant job loss, market failure essentially refers to the inability of the labour market to correct for the sudden increase in the supply of labour as a result of a large firm closure. Contributing factors may include:

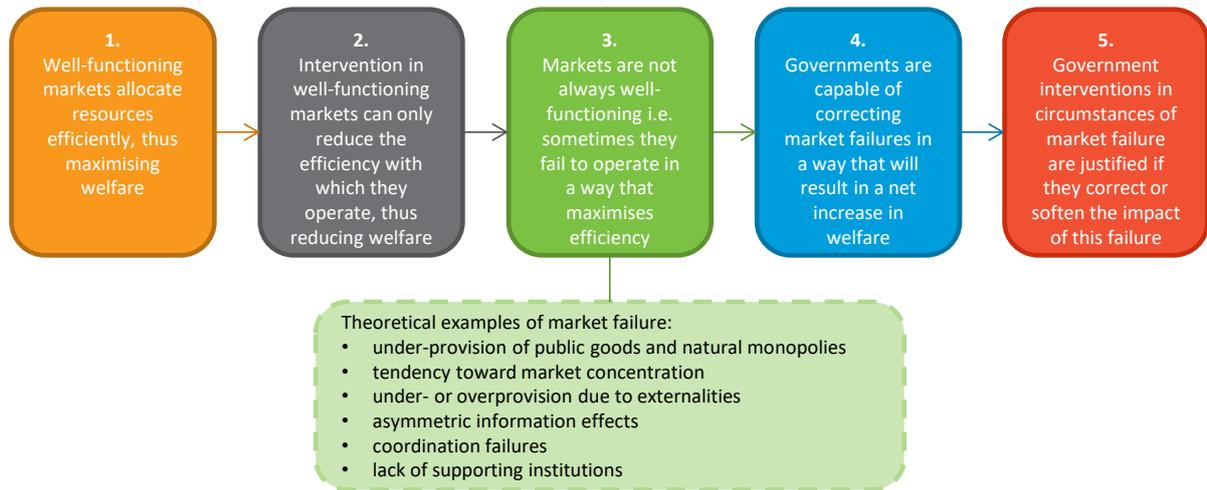
- **features of the market structure** – highly concentrated local / regional labour market, often associated with a dominant major employer (as described in the previous section) and homogenous labour supply
- **externalities** – cumulative negative economic and social impacts of extended periods of unemployment, associated especially with geographic and / or sectorally concentrated major job losses that are not balanced or countered by policy responses
- **information failure** – for government, in relation to the cumulative costs of localised unemployment; for displaced workers, inadequate information on skill requirements needed to access alternative employment opportunities (Weller: 2007, p. 2).

An institutional perspective would suggest that, in each of these cases, government intervention is justified and will lead to better outcomes. For example, governments can alleviate information failures by providing job placement and training services that help connect workers with opportunities of which they are not aware and to acquire the necessary skills.

Subsidised or free places for ‘in demand’ occupations, delivery of targeted skills acquisition to help workers transition to specific job opportunities or incentives to potential employers to take on and train workers who may not have the necessary qualification are all possible interventions to support the acquisition of skills in line with an institutional perspective.

The logic of this approach, and the causes underlying most market failures, is outlined in Figure 3.

Figure 3: The economic rationale for government intervention in the market



Experience with past policy interventions has led to two criticisms of this framework:

1. While governments may be theoretically capable of correcting market failure, interventions often prove ineffective (e.g. as a result of lack of complete information and / or perverse / unpredicted second round impacts).
2. Even where action does address the market failure, the costs of intervention might outweigh its benefits (e.g. costs that arise from bureaucratic complexity or deadweight losses associated with higher taxes etc).

It is therefore essential that any intervention targeted at correcting market failure is both dynamic in that it adequately responds to new information and perverse consequences, and holistic in that it is also delivered and funded cost effectively.

## 5.2 The neo-liberal perspective – change the attitudes of displaced workers

The neo-liberal perspective sees the ability of a displaced worker to find alternative employment being limited primarily by the worker's own mindset – that is his or her willingness to adjust to changed circumstances. This framework suggests the failure of workers to adjust to the loss of a job is due to many workers being part of a system that does not promote a self-reliant and realistic attitude to employment prospects.

These attitudes manifest in a displaced worker's views on the:

- wage he/she would be prepared to accept in alternative employment
- distance that s/he would be prepared to travel for work
- willingness to invest in training either financially or over time
- fairness of redundancy processes and policy responses.

The neo-liberal perspective is that these preferences can and must adjust to reflect the reality of employment opportunities.

To take one example of how this would be considered in a policy context: many workers are reluctant to undertake training post redundancy. This might reflect a variety of economic or social factors. Some are unavoidable such as the need to earn a sufficient income to support themselves or their family, while others relate to individual preferences such as being unwilling to consider changes in occupation.

In this case, the neo-liberal perspective would promote government support that facilitated the take up of training by workers who would not normally consider it a viable option. Support would take the form of information and advisory services that change worker preferences to become more attuned to training opportunities and their potential to enhance prospects for reemployment and progression.

Such support would not, however, extend to interventions that limit an individual's ability to take responsibility for their future career direction. The objective is to encourage a change in personal choices and preferences that would see the displaced worker build skills in an industry / role where the jobs are.

## 5.3 A focus on labour market adjustment draws on both perspectives

Both the institutional and neo-liberal perspectives have influenced the formulation of government policy over recent decades. The former was the dominant view until the mid-1990s, but neo-liberal views have come to the fore more recently (Sally Weller in 'The Other Side of Precariousness: The Cost of Job Loss', 2007). In practice, however, policy makers have tended to draw on both approaches – recommending policy interventions that correct market failures while targeting groups that find it most difficult to adjust to changed circumstances.

The following section discusses in more detail how these different perspectives have influenced specific types of policy responses.

## 6 Policy responses to large firm closures have varied, but a mixed approach seems best

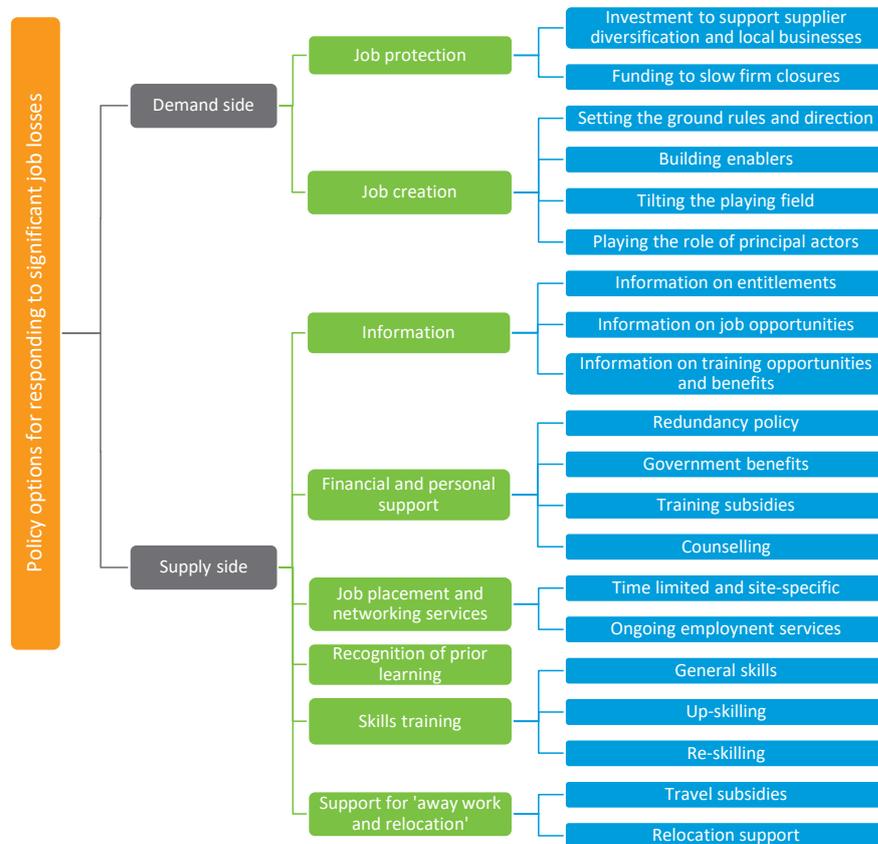
Our review of the literature reveals a varied response by governments to large firm closures in different times and different places over the past 30 years. We focussed on the experiences of developed economies, most notably Australia, the United Kingdom, South Africa and the USA. In each jurisdiction governments have used a similar range of policy levers to assist displaced workers, with their responses generally centring on some form of income support and job search services. There is no clear pattern in decision-making on whether and how to mitigate the effects of major job losses beyond these baseline services.

As noted earlier, the chances for displaced workers to find rewarding new work can be influenced by both the demand for and the supply of labour. Government responses to displacement events have therefore tended to involve interventions on both sides of the market:

- demand side initiatives – focus on the protection of existing jobs or the creation of new ones
- supply side initiatives – focus on helping workers find new jobs.

These policies have similar end goals – successful labour market outcomes for displaced workers – but the strategies adopted are different. This section summarises the possible demand and supply side levers available to government. It begins with an overview of the different policy options related to both in Figure 3.

Figure 4: Available policy options



## 6.1 Demand side policies focus on businesses – to maintain or find alternative opportunities for employment

Demand side initiatives have generally focussed on the protection of existing jobs or the creation of new ones. At one end of the spectrum there are policies that seek to contain the fallout from a firm closure through targeted assistance to those businesses directly and indirectly impacted by the closure (i.e. job protection). At the other end of the spectrum is a focus on new ventures and employers to take the place of the closing firm in the local economy (i.e. job creation). Generally, attempts to prop up an ailing company – for example via direct government subsidies, preferential tariffs or purchasing policies – are costly and ineffective in the long term, but carefully targeted support to manage the speed of contraction may be justified. This is discussed further below.

### 6.1.1 Job protection

The overarching purpose of policy responses to protect jobs is to minimise the impact on the local economy and community of large scale retrenchments. They take a number of forms, shown in Table 1.

Table 1: Policy options for job protection

Intervention	Purpose	Target	Strengths	Weaknesses
Investment to support supplier diversification and local businesses	Job protection	Supply chain businesses	<ul style="list-style-type: none"> <li>creates more resilient industry base</li> <li>support or increases the speed of growth of emerging industries</li> <li>reduces the ‘multiplier’ effect of large firm closures</li> </ul>	<ul style="list-style-type: none"> <li>difficult to work out which businesses should be supported and how/to what end</li> <li>can create a large number of businesses dependent on government assistance</li> <li>can delay, rather than overcome the structural adjustment process in many instances</li> </ul>
Funding to slow firm closure	Slow entry of workers into job market	Distressed firms	<ul style="list-style-type: none"> <li>smooths the flow of displaced workers into the labour market</li> <li>allows workers more time to adjust</li> <li>allows impacted firms more time to adjust</li> <li>allows emerging industries time to adjust</li> </ul>	<ul style="list-style-type: none"> <li>can result in workers having uncertain employment futures for longer</li> <li>can divert funding away from more sustainable economic opportunities</li> </ul>

One example of a job protection initiative is the establishment of a £65.6m fund when the MG Rover manufacturing plant closed in Birmingham UK in 2005. The purpose of the fund was to help ex-suppliers diversify their customer base and supporting otherwise viable, but affected, non-suppliers to remain in business (Armstrong *et al.*: 2008, p. 349).

## 6.1.2 Job creation

Job creation presents an alternative approach to managing demand side impacts. At a local level, the purpose of job creation is to stimulate investment in new sectors that offer greater potential for growth and employment prospects. An example of this is when the Mitsubishi manufacturing plant closed in Lonsdale SA in 2004, a \$45m regional investment fund was established to support investment in new ventures in the region to spur the creation of new jobs (Armstrong *et al.*: 2008, p. 345).

In the context of wider structural shifts, job creation interventions, in particular, need to be seen as part of more general efforts by governments to drive growth and competitiveness, thereby creating new opportunities for employment. The McKinsey Global Institute (2010) identifies four categories of intervention (in increasing order of intensity) to support this broader goal (Table 2).

Table 2: Categories of interventions to drive growth and competitiveness (McKinsey, 2010)

Category	Possible intervention
1. Setting the ground rules and direction	Governments can set the regulatory environment, including labour and capital-market and general business regulation, and send signals through broad national priorities and roadmaps.
2. Building enablers	Without interfering with the market mechanism, governments can support the private sector by expanding hard and soft infrastructure; developing a skilled workforce; and supporting research and development.
3. Tilting the playing field	Governments can choose to create favourable conditions for local production, typically through trade protection from global competition; by providing financial incentives for local operations; or by shaping local demand growth through public purchasing or regulation.
4. Playing the role of principal actors	At the interventionist end of the policy spectrum, governments play a direct role by establishing state-owned or subsidised companies; funding existing businesses to ensure their survival; and imposing restructuring on certain industries.

In response to large firm closures, governments appear to gravitate to category 2 – building enablers – or category 3 – tilting the playing field. Regional investment funds are a good example of a policy that spans both of these categories. Such funds support innovation in areas affected by significant job losses by providing co-investment to businesses and providing financial incentives for local operations, which in turn serve to create high quality, skilled and sustainable new jobs in the regions.

Despite their apparent success in a number of circumstances, the appropriateness of regional investment funds has come under question by some commentators. The argument is made in certain cases that the region is not able to absorb the funding made available (Oughton: 2002) or that the jobs created are not easily accessible by the displaced workers the funds are designed to help. To take each of these points in turn:

- There is a paradox in regional investment to support innovation, in that the regions that need investment to support innovation, are often the least able to absorb the funds. The implication for policy is that governments may have to do more than simply make innovation grants available. They may have to also invest in local capacity building or actively promote investment in the region to actors outside it.

- On the issue of accessibility of the new jobs, the projects funded by the Structural Adjustment Fund for South Australia (SAFSA) provide a good case in point. They were designed to create jobs in the Northern Adelaide manufacturing area, more than an hour's drive from the site of the closed Mitsubishi plant in Lonsdale. Although the distance here is not excessive, the petrol costs of commuting this far can amount to 20-25% of a manufacturing worker's wage (Beer: 2008, p. 326). In this case a broader policy approach that combined supply side initiatives to enhance worker mobility might have been required to complement job creation efforts.

## 6.2 Supply side policies focus on workers – helping them be better informed and more employable

Supply side initiatives have gained increasing focus in recent years for their promise of directing resources to those impacted most directly by large firm closures or major retrenchments – the displaced workforce. Supply side options are primarily focussed on linking potential employers and displaced workers, either through assistance to enable workers to resume search activities (information, financial and personal support) or support to increase the likelihood of employment (placement services, recognition of prior learning, retraining, away work and relocation). As noted above, most developed economies draw on a similar set of programs of this type. However, responses to large, concentrated job losses may call for differently packaged or more extended services or support.

### Information provision

At the time of plant closure, workers often lack sufficient information about how they can best manage the loss of their jobs (Gordus: 1984). Policy responses often include advice to assist displaced workers to weigh up the costs and benefits of different options available to them and decide on the best course of action.

Such advisory services typically provide information on:

- entitlements as a displaced worker (i.e. to benefits and supports)
- job opportunities in the local and surrounding labour market
- training options available to them and the potential benefits.

In the absence of comprehensive and timely information, the literature shows that workers will generally resist costly job search, retraining or relocation efforts in favour of those with lower financial and social costs. In most cases, this means trying their chances in the local employment market, despite the degree of competition with former colleagues who possess similar skills. This reluctance to actively search, to retrain or to re-locate is most evident among older workers who have the shorter remaining work lives and oftentimes a higher level of skills (which acts as a disincentive to retraining). Information therefore needs to pre-empt and address this mindset issue.

Information services can also focus on making employers more aware of displaced workers' skills and experience in order to encourage the engagement of staff without the usual recruitment and training costs.

### Financial and personal support

Financial and personal support is targeted at helping individuals overcome barriers to successfully re-entering the workforce and enable them to make the right decisions, personally and professionally.

There are many decisions to make post retrenchment; some of them will be straightforward while others could have major consequences for the individual and/or their family. Personal circumstances can sometimes get in the way of an individual making the best choice for them.

Financial support is an important component of any intervention as it eases the financial burden on workers post retrenchment. Support is generally provided through three main forms:

1. **Redundancy packages** – either paid directly from the employer or through the Government’s General Employee Entitlements and Redundancy Scheme (GEERS) / Fair Entitlements Guarantee (FEG) which helps workers get through the immediate aftermath of firm closure when the employer enters liquidation and is unable to pay workers’ outstanding entitlements. However, in some cases this may not cover the gap between jobs.<sup>2</sup>
2. **Employment benefits and programs** – which act as broad-based unemployment insurance to support workers during transition. Examples include unemployment benefits (e.g. NewStart), subsidised training (e.g. Victorian Training Guarantee, Productivity Places Program) or other financial support (e.g. for childcare).
3. **Targeted short term financial assistance** – built around low cost loans. This may take the form of access to programs such as the Commonwealth’s VET FEE-HELP scheme. Alternatively it could be through tailored individual service packages that support displaced workers to access a portfolio of services and providers of their choice within an agreed budget.

Such aid can ease the financial burden but it does not help individuals make the right choices. Many displaced workers have been in stable employment for a significant period and often need time and support to develop the required skills, knowledge and confidence to adjust to their new circumstance. Counselling services, either financial, career or personal, are designed to help individuals think through their decisions and ensure the fallout from retrenchment is managed appropriately.

The potential value of such services was acknowledged by Beer (Beer *et al.*, 2006) in his review of the Mitsubishi closure. Beer recommended counselling for both former Mitsubishi workers and their families to aid the processes of adjustment and change. Specific recommendations included:

- Ongoing financial counselling through non-government organisations to help individuals and their families with financial questions and advise retrenched workers on setting up their own business, i.e. entering a partnership or becoming a franchisee
- Compulsory counselling sessions for redundant workers as part of the ‘exiting’ process to help workers work through the anxiety and stresses associated with their retrenchment and to identify individuals at risk needing further support
- Personal counselling for at risk individuals to help maintain self-efficacy and build social networks that can provide an ongoing support. (Beer *et al.*, 2006)

## Placement services

Financial and personal supports are generally broad based measures. Placement services are more targeted, with a clear end goal: to find a match between a displaced worker and potential employer. Placement services incorporate information provision, practical job-seeking assistance and referral to other services or supports. They broadly fall into two types:

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<sup>2</sup> The GEERS is a safety-net program and is not an entitlement scheme for retrenched workers. As a consequence it is not intended that the program will support workers until they get their next job, which could take a considerable amount of time. The *Fair Entitlements Guarantee Act 2012* commenced operation on 5 December 2012. The Fair Entitlements Guarantee replaces the GEERS.

1. Time limited and site-specific – these are bespoke programs to assist displaced workers identify and pursue employment pathways that are informed by specific local skills demands. Such services tend to be valued by workers because they are free, tailored, and have fewer stigmas attached. They generally have high rates of success, but this is contingent on local labour market demands.
2. General employment services – these are universal services to support unemployed generally, as opposed to a specific cohort of retrenched workers. In Australia there is an assessment process that streams eligible job seekers to ensure that those who are least ‘job-ready’ can access more intensive support (including on-site assistance and pathways advice as per the first type of service outlined above). For those considered to be more job-ready, there is a greater reliance on personal initiative in identifying and pursuing employment opportunities.

Overall, job-placement services have been found to be one of the most cost-effective programs for displaced workers (Cavaco *et al.*: 2005, p. 3) with studies indicating that over 45% of those in work obtained employment through use of such networks (Tomaney *et al.*: 1999, p. 408).

However, one issue with placement services is that they might focus too much on getting displaced workers into any job - regardless of its security or conditions or skill level. The risk is that, while a placement meets an immediate need for income, there are longer term consequences or opportunity costs. The literature suggests that services that prioritise job continuity, skills development and earnings improvement rather than simply focusing on job attainment are critical in the establishment of new careers (Watson, 2008). Similarly, policies that support worker retention and advancement post placement are more likely to bring enduring participation than job-seeker services alone (Australian Workforce and Productivity Agency, 2012).

A related concern arises from research into the referral by job placement services of clients to training that is inappropriate or inadequately supported for long term unemployed. The Brotherhood of St Laurence (BSL) found a number of weaknesses in training aimed at helping disadvantaged job seekers become ‘job ready’. These included:

- mismatches between training courses offered or available and job seeker career paths and aspirations
- inadequate careers advice
- unwillingness of employment service providers to fund training sought by job seekers
- ‘too much’ training, whereby job seekers fall into a cycle of continuous retraining (BSL, 2011).

Again, the consequence for the worker is either continued or intermittent unemployment. The challenge for policy makers is to ensure that those displaced workers that are high risk of joining the long term unemployed do not fall into a similar cycle.

## Recognition of prior learning

Recognition of prior learning provides an opportunity to avoid timely and costly retraining processes to focus on the ‘real’ skill gaps to employment for an individual. Displaced workers often possess a strong attachment to their former employer or their former employer’s industry (Jacobson, 2005). In many cases they have developed their skills through ‘on the job training’ rather than pursuing formal qualifications. The result is a skill set that is highly valued by their former employer but not recognised by prospective employers.

The response in such cases can be to undertake assessments that can lead to formal certification of acquired skills, and then provide training that addresses remaining gaps to complete a full qualification

that will make it easier to satisfy requirements of prospective employers. However, programs are often designed to provide end-to-end training – that is, to take a worker from one skill level to the next. This approach works on the basis that individuals require a package of skills that will enable them to perform at a certain level. However, with displaced workers it is more likely that they are looking for a specific skill which may not be easily accessed as part of formal training. Accordingly, an effective skills response should support workers to unpack or deconstruct their skills, analyse and acknowledge their proficiency, address any gaps and repack in a configuration that is relevant to prospective employers (Virgona *et al.*, 2003).

## Retraining

Governments' investment in training is predicated, among other things, on the benefits to the economy of high participation and low unemployment. Approximately 86% of working age people with a post school qualification are in the labour force compared to 69% of those without one (Australian Workforce and Productivity Agency, 2012). The changing nature of work and the economy makes it more likely that future jobs will demand higher skills.

Retraining can assist individuals shift from occupations in sectors of declining employment to higher-demand (and higher-income) occupations. Such investment can be through non-financial incentives, subsidised places, or short term loans.

There are mixed views on the relative cost-effectiveness of using reskilling programs to achieve re-employment objectives (as opposed to achieving broader economic or societal objectives). While many studies (Dougherty and Tan: 1991; Cavaco *et al.*: 2005) highlight their value to particular groups, more comprehensive evaluations rarely find significant broad-based results. For example, in their meta-evaluation of multiple retraining programs in OECD Countries, Dar and Gill conclude that:

*“Retraining programs are generally no more effective than job search assistance in increasing either reemployment probabilities or post intervention earnings, and they are between two and four times more expensive than job search assistance.” (Dar et al.: 1998)*

There is also mixed evidence over the most cost-effective type of retraining – the provision of foundation skills such as in literacy, numeracy, cognitive ability, communication and interpersonal skills (Dougherty *et al.*, 1991) versus specific job-related training and skill development (Bailey *et al.*: 2011).

Taking a broader view of the objectives of reskilling – that is looking beyond the transition of workers into new jobs – retraining has been found to have other benefits, including reductions of inequality in employment outcomes for disadvantaged groups such as unskilled and older people as well as women (Cavaco *et al.*: 2005, p. 15; Dar and Gill: 1998, p. 87). Furthermore, retraining has been associated with an inclination to widen the reach of a displaced worker's job-search efforts (Hinde: 1994, p. 716). These are important points to bear in mind when considering the overall value of training interventions.

A challenge with retraining programs is that often the more employable people (i.e. more educated and younger) tend not to take up training (Cavaco *et al.*: 2005, p. 19) even though they would benefit more from it than those who do take it up. Jacobson *et al.* (2011) suggest that the effectiveness of training for these individuals has been constrained due to significant underinvestment.

Jacobson *et al.* (2011) also concluded that for high-tenured employees (individuals who had worked for their employer for three or more years) to recover the loss of income after being made redundant they require the equivalent of two academic years training in high-return fields of training that match their attributes and interests. They argue that some of this training should be conducted after these employees are working full time to minimise transitional losses in income and the impact on the public purse. This is in contrast to many training responses to large firm closures that generally focusses on

short-term training or low cost training programs that often conclude or are no longer practical when individuals obtain employment.

Importantly, but unsurprisingly across all studies, effectiveness seems closely related in large part to the individual’s motivations and desired outcomes from training – i.e. skill enhancement, job search or being usefully occupied while unemployed.

The four main forms of retraining programs are outlined in Table 3:

Table 3: Types of retraining

Training type	Description
Basic skills training	Foundation training in job-seeking skills like resume writing or in general skills like forms of literacy numeracy, cognitive ability, communication and interpersonal skills etc.
Up-skilling in the same area	Training in the same area worked in before redundancy. This training helps workers signal to prospective employers that they have an investment in working there as well as providing them with valuable skills to differentiate themselves from other workers.
Targeted skills acquisition	Training linked with job placement services to address gaps in skills to meet the needs of a potential employer. Training is often conducted on the guarantee of an interview at completion.
Re-skilling in a new area	Retraining in a new skillset can help workers change industry, providing them with more opportunities. The training itself acts in the same way as the above but provides workers the added benefit of an ability to change industry.

Of these four types of retraining, targeted skills acquisition has had the greatest success, followed by reskilling in a new area, particularly in ‘green’ or new skills where training has been found to increase the degree of permanency in the jobs graduates find afterward (Hinde: 1994, p. 719). In contrast, foundation skills training can suffer from limited uptake due to perceptions of irrelevance and/or stigma (Shuttleworth, 2005), while up-skilling in the absence of employer demand has the adverse effect of reshuffling the job queue in favour of displaced workers over the already unemployed (Chapain and Murie: 2008, p. 316).

On the basis of documented evaluations, the closure of the Mitsubishi plant in Lonsdale provides an example of a major firm closure that could have benefited from more targeted skills interventions. Despite policy-makers identifying that there were skills gaps in the region in the mining and defence manufacturing sectors, no programs were established to effect the transition of workers into these industries. The assumption that workers would gravitate there ‘naturally’ did not prove accurate; in fact only 2% of workers found jobs in each of these industries a year after because of the mismatch of the skills requirements of the jobs on offer compared with those offered by displaced Mitsubishi workers (Armstrong *et al.*: 2008, p. 347).

## Away work and relocation

Workers who become redundant often cannot find jobs in the same area and so must seek employment elsewhere. In this situation, workers either migrate or commute to areas with better opportunities for employment. An evaluation of the closure of the Sunderland shipyard in the UK identified that ‘away work’ (working outside of the region) was common during the initial stages following redundancy, with up to 20% of the workforce employees working outside of the Northern Region. By the end of the study period the proportion of away workers had fallen to 13% (Hinde, 1994).

Such results may indicate that ‘away work’ is not sustainable in the longer term. Individuals have a natural preference to re-enter the labour market close to home. Undertaking such work may be used as a bridging strategy to obtain new skills or to wait for new opportunities to emerge closer to home. However, taking up away work without relocating entirely is extremely taxing on the workers, often being associated with the decay of relationships, stress and other mental health issues (Hinde, 1994, p. 722).

Given the heavy cost of away work, interventions should consider the need for support to allow people to relocate permanently, rather than commute long distances if the work opportunities continue to only remain available outside the local area. This give rise to a new set of policy challenges as moving people is not as simple as moving goods with displaced workers less spatially mobile than many policy-makers assume.

Policy responses therefore need to be sensitive to this reality. Financial assistance with the costs of relocating or commuting should be provided and at a level large enough to compensate for the transport as well as the risks (perceived or otherwise) confronting workers (Beer: 2008, p. 328). Consideration should also be given to the amenity and services at the eventual destination; for example, the absence of comprehensive services for families in mining communities can make fly-in-fly-out options more attractive than relocation.

The mixed success of the Commonwealth Government program, ‘Connecting People with Jobs’ provides some evidence of the challenges associated with incentivising people to relocate for work. As at 18 June 2012 the program, which had a budget of up to \$29.2 million, had only spent \$1.5 million. This translated to 584 job seekers being assisted to move interstate for work (Australian Workforce and Productivity Agency, 2012).

### 6.3 Most assistance packages involve a combination of supply and demand side measures.

The scale and complexity of large firm closures and major retrenchments means that it is unlikely that a single policy option will be sufficient to manage the multiplicity of impacts. In many, cases a combination of options to address both the demand and supply sides of the labour market will be required. Put simply, it is of limited benefit to create jobs if there are not sufficiently skilled people available to fill them. Similarly, there is little value in preparing someone for employment if there are no jobs.

The following table provides some examples of how some different interventions have been combined under various responses to structural adjustment both in Australia and internationally (see Table 4):

Table 4: Interventions in large firm closures

Intervention	Mitsubishi 2004 (Armstrong <i>et al.</i> : 2008)	MG Rover (Armstrong <i>et al.</i> : 2008)	Ansett (Weller: 2007)	North East Shipbuilders (Hinde: 1994)
Job protection	X	✓	X	X
Job creation	✓	✓	X	X
Skills training	X	?	X	✓
Placement services	✓	✓	X	✓
Transport support	X	✓	X	X

The demographic profile of the affected workforce is a key determinant of what specific programs will be successful. Recognition of these differences may at times necessitate segmentation of workers into different categories. One possible approach is to segment based on those for whom enhanced qualifications will materially affect life opportunities and wellbeing and those whose engagement with education and training, if undertaken at all, will see more diffuse outcomes (Davies et al, 2011).

Higher skilled, younger workers are more easily transferred to new roles than older, less skilled ones (Murtough and Waite, 2000). Therefore it may be more appropriate to focus on short-term training and job placement activities for the former group. In contrast, a different mix of services which includes more intensive and longer term training, small business start-up funds or possibly assistance for transitioning into retirement may be appropriate for displaced workforces that are older or less-skilled (Shuttleworth, 2005). Regional differences are also an important consideration for designing an effective response to a large firm closure or major retrenchments.

## 7 Governance and community engagement arrangements need to be considered.

The challenge for policy makers at each level of government is to roll out job creation and transition programs in the right combination to achieve outcomes suitable to the particular circumstances of the individuals and communities affected by a displacement event. At the same time they must also recognise that they are not the only players who seek to shape the response and likely outcomes for workers and the community.

Our literature review shows that effective interventions have paid attention to governance arrangements that facilitate coordination and monitoring, and stakeholder engagement that maximises local involvement.

### 7.1.1 Large firm closures trigger responses from a broad range of players.

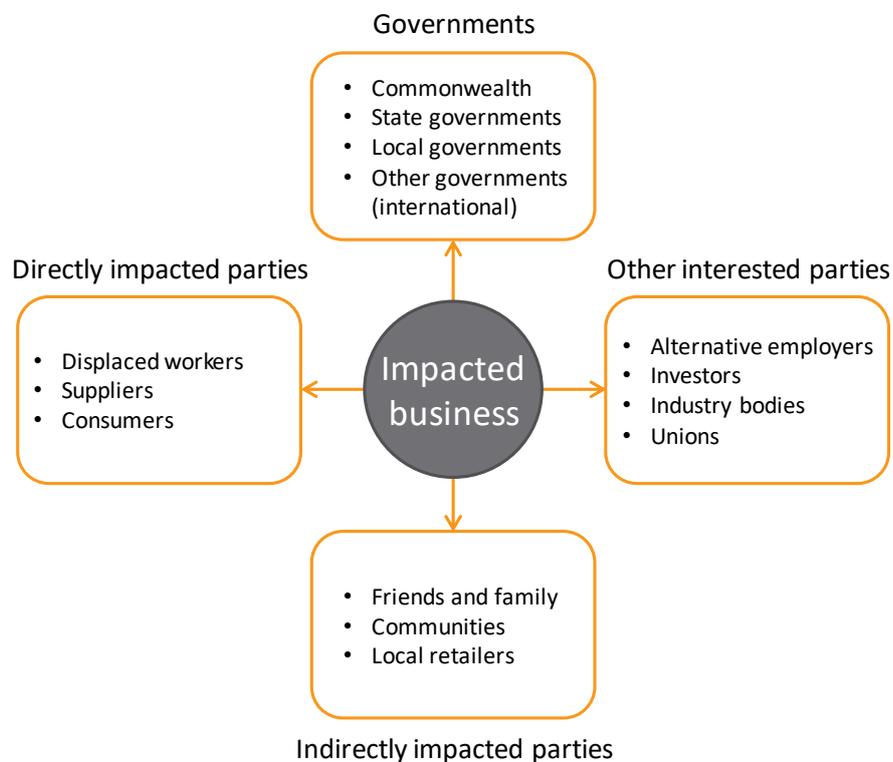
The closure of a large firm triggers a variety of responses from public and private entities. Local, state and commonwealth entities seek to ameliorate the consequences for affected workers and communities, while private businesses will either seek to mitigate the impacts or capitalise on the opportunity created through closure.

For example, the Mitsubishi closure in 2004 triggered commitments from all levels of government with:

- \$45m (\$40m of which went to SASF) committed from the Australian Government for the labour adjustment programs (LAPs)
- \$5m provided by South Australian Government to support labour adjustment activities
- considerable effort provided by Local government, through the City of Marion and the City of Onkaparinga, including a significant commitment of senior management time.

As large firm closures affect a broader range of stakeholders, and often attract intense media interest, it is not surprising that different layers of government become involved. Figure 5 illustrates the range and diversity of the stakeholder environment for a large firm closure or mass lay-offs.

Figure 5: Stakeholder map



The navigation and coordination of this network of interested parties creates an additional challenge for policy makers. It also creates opportunities for leveraging interest on the part of community and business leaders to achieve a more comprehensive response.

Public administration theorists have observed the emerging phenomenon of governments needing to operate more effectively as steward of a network, rather than managers of stakeholder relations. This distinction may appear subtle but it alters the way a government might approach partnerships with others in a more realistic way (in terms of the true degree of shared interests) and in a more innovative way (e.g. through co-design of programs). The network stewardship concept is described as follows:

*"[I]n the simple form of (a network) relationship, the government organization might have a separate dyadic relationship with each external provider. The involvement of each extra provider has an incremental effect, in that it adds one more relationship to be managed. But in its more complex ... form, not only does the government organization have a separate relationship with each provider, but some or all of the providers might have a relationship with each other. This means...an exponential increase in complexity."*

*(Alford and O'Flynn, 2012)*

The network governance concept recognises that, while there may be a shared interest in minimising the impact of large-scale job losses, individual stakeholders may nevertheless have a different understanding about what that means in practice, and may only be prepared to engage on certain terms.

This network concept is applicable to managing the impacts of large scale job losses, involving relationships between: government and non-government employment services; training providers and social welfare providers; employers and unions; different layers of government, not all of whose

interests are necessarily fully aligned. Managing this network so that there are the right inputs at the right time, well-coordinated and with clear accountabilities and enough flexibility to adapt is a major part of the challenge in designing a successful government response to a large firm closure or mass retrenchment.

The following sections outline some of the different governance models and engagement techniques employed by governments as part of their responses to large-scale job losses.

### 7.1.2 Taskforces are an effective mechanism to give voice to a range of stakeholders.

According to the literature, task-force led and managed responses are often more successful than assembling off-the-shelf programs, as they structure in a range of views to inform policy and program design. However, they need to be established and run in such a ways as to minimise the downsides of a task force approach. Henderson and Shutt (2004) summarised the advantages and risks of task forces and we have reproduced them in Table 5.

Table 5: Advantages and risks of using a task-force (Henderson and Shutt, 2004)

Advantages of using a taskforce	Risks of using a task-force
<ul style="list-style-type: none"> <li>◦ Mechanisms for multiple agency cooperation</li> <li>◦ Engage regional experts</li> <li>◦ Adaptation to changing circumstances</li> <li>◦ Swift mobilisation of people and resources</li> <li>◦ Encourage prioritisation of actions</li> <li>◦ Draw in regional and national funding</li> <li>◦ Flexible composition</li> </ul>	<ul style="list-style-type: none"> <li>◦ May focus on symptoms and response, not underlying causation</li> <li>◦ Spatial parochialism-local authorities vie for support</li> <li>◦ Process rather than strategy driven</li> <li>◦ Bureaucratic leadership</li> <li>◦ Lack clear agendas</li> <li>◦ Insufficient funding</li> <li>◦ Under-representation of those people directly affected – workforce, unions, etc.</li> </ul>

There are additional potential benefits to task forces not identified by Henderson and Shutt. These include: greater consideration of personal attributes (such as age, gender, skills and wealth distribution) associated with workers’ employability and reabsorption in labour market; improved issues management with groups to overcome perceptions of procedural injustice; and increased opportunities to make use of geographical clusters to capitalise on strategic capabilities to diversify industry and sector risk.

According to Henderson and Shutt (2004), the key to taskforce success is to ensure it:

- brings together operational and strategic experts across the private, public and voluntary sectors affected by the closure
- secures adequate funding
- makes no unsustainable promises
- minimises bureaucracy
- avoids ‘turf wars’
- ensures a sound case is made for deployment of funds.

An example of the use of taskforces was the establishment of the Illawarra Stakeholder Taskforce following the announcement by Bluescope that it was closing one of its Port Kembla blast furnaces. Chaired by the Secretary of DIISTRE, its prime role was to coordinate the initial rollout of the Government's response, connect with related State and community-led responses, and provide a single source of contact for Bluescope and for public messaging.

Joint funding agreements for programs are another mechanism to coordinate interests and actions. They create the circumstances for key stakeholders to coordinate and collaborate while heightening the degree of responsibility and accountability for specific program inputs and enablers. However, those who are not party to the agreement do not have a voice, potentially excluding valuable opinion-leaders and others who can contribute to successful implementation and outcomes.

The Australian Regional Innovation and Investment Funds (currently in place to support the regions of Illawarra, South-East South Australia and Tasmania) are examples of such fund-based coordination mechanisms. The funds are jointly provided by the Commonwealth and State Governments but also require private sector contribution. For example, the \$30m Illawarra Region Innovation and Investment Fund (IRIIF) is jointly funded by the Australian Government (\$20m), the NSW Government (\$5m) and BlueScope Steel (\$5m). Projects eligible for grants under the IRIIF were also required to commit a minimum investment of \$100,000.

### 7.1.3 Co-production of publicly funded services could be a valuable feature

There is a growing interest in the theory of co-production of goods and services that have a 'public value' objective, with the prime exponents of this being Harvard University Professor Mark Moore and ANZSOG's Professor John Alford. In the same way that private companies have co-opted customers to 'co-produce' services (with airline bookings and internet banking being prime examples) public administration theorists have argued that the public sector needs to engage its users in the design and delivery of services, where there is capacity to do so. The trade-off in the investment of one's time to help design a service is a greater likelihood of more tailored delivery and a sense of personal control.

There are some examples in the literature of where this principle has been applied, not just in service delivery but also contemporary thinking about regulation (see Alford 2009). We are not aware of any specific analysis of where and how such an approach has been employed to address the challenge of coping with large-scale job loss. However, there is a clear imperative that has been acknowledged by governments (e.g. see the Advisory Group on Reform of Australian Public Administration, 2010) to engage clients specifically in designing solutions for their problems.

As former Secretary of the Department of the Prime Minister and Cabinet, Peter Shergold has argued:

*“(Governments) continue to deliver many human services in a standardised and prescriptive manner, with too little opportunity for flexibility and tailoring at the community or individual level. Yet we know that many individuals (such as those with a disability or suffering mental ill-health) have the capacity to self-manage government-funded budgets and self-direct the services they need. And we know that community organisations (particularly those delivering government programs) have the capacity to contribute to the design of publicly-funded services.*

*Unfortunately progress on 'co-production' has been too episodic and unduly cautious, effectively undermining the opportunity for a more collaborative (and more innovative) approach to meeting societal needs. Too rarely has the expertise of citizens who receive services been 'crowd-sourced' to find more creative (and participatory) ways of delivering public services.”*

*(Shergold, 2012)*

The extent to which displaced workers will be able to engage in considerations about proposed responses will vary according to their own resilience, the amount of warning, the attitude of the employer and a number of other factors. The principle of empowering someone in that situation nevertheless is an important one, as is the need to think of the person in the context of their unique circumstances.

The timing and nature of any engagement with the worker and their family are important considerations. While there is no specific literature on this to date, we note that keeping employees and their families engaged in the adjustment of responses and providing feedback to program designers and managers is potentially easier with social media tools.

The other aspect of co-production is the opportunity presented to leverage private contributions and efforts. Most obviously this can take the form of the closing firm investing in scholarships for retrenched workers or facilities for the local community. Other potential employers or community leaders could be called upon both to assist in the transition to alternative employment or for job creation efforts.

#### 7.1.4 Active management improves the outcomes for displaced workers

Labour markets are dynamic systems; the closure of large firms can cause ripple effects through other businesses and over time. In the face of major firm closures and attendant structural adjustment in local or regional economies, interventions need to be flexibly designed to adapt to changing circumstances and hence minimise the risk of perverse or adverse outcomes (Hallsworth, 2011).

Our literature review reveals a range of examples where an intervention did not deliver the desired outcomes. Examples also can be found where the potential benefits of interventions were not fully realised due to underfunding or over-screening (Bristow, 2008). The consequence is individuals who could be helped yet are not.

Governments should actively manage their interventions, not simply with a view to maintaining effective coordination, but to adjusting and re-calibrating responses according to achieved outcomes (and not just outputs). It is important also to be alert to any adverse side-effects of their programs (World Bank, 1991) and not just focus on the success stories. Active management and monitoring should enable policy-makers to understand why a program that benefits one group of individuals may not benefit others and then tailor the intervention accordingly.

This is consistent with the notion of ‘adaptive systems’ in which complex networks such as those depicted above provide data and feedback to inform further iterations of response.

## 8 Planning should start early and take a long view

The impact on employees and wider community of large scale job loss does not start and end with the decision to re-structure or close. To develop effective interventions, there is a need to consider the short, medium and longer term impacts of the closure or retrenchment and make judgements about the best time to intervene or respond.

Particular attention should be given to the profile of the workforce, the resilience of the local economy, the extent that the economic risks can be mitigated at the time of firm closure or lay-offs, and the potential flow-on effects to be managed.

### 8.1.1 Pre-emptive action has helped smooth the transition in some cases

Firm closures are often expected; few are surprises. Even without formal notification of an impending firm closure, planning can get underway to consider the likely impact and develop responses that align with wider strategy for regional and/or industry development. Such strategies should open entrenched industries and regional economies to the benefits of change by promoting adaptability, innovation and competition among businesses. Maintaining a positive macroeconomic environment and improving the efficiency of skills formation both serve to promote investment and resilience through periods of change (Downes and Stoekel: 2006).

However, implementation of such policies takes time and must be effected well in advance of a firm closure.

The intervention around the closure of the MG Rover plant in Birmingham provides one example of effective pre-emptive actions. At the time that the plant first came under threat of closure (2000) a regional taskforce implemented a program to diversify the economy around Birmingham into non-auto sectors. When the firm ultimately closed, it took place in a period of significant economic growth and economic diversification for Birmingham and the West Midlands (Bailey *et al.*: 2011). This shows the value of precautionary planning for 'at risk' sectors and industries to smooth the transition. Further interventions could also have looked at diversion strategies for individuals seeking to enter declining industries, or investments in infrastructure to support new industries.

### 8.1.2 Targeted support to slow firm closure may be justified in limited circumstances

In certain circumstances, there may be a prima facie case for carefully targeted and/or limited assistance to delay a firm closure. Research has shown that labour market outcomes for individuals may be substantially improved when there is intervention to slow the closure process itself (Batt: 2001). This strategy allows workers more time to adjust to what is coming.

The options available to employers to delay the closure or extend the period of downsizing include reducing shifts or working weeks and phasing a series of shut-downs (Gordus: 1984). The benefit of such a strategy is that it:

- smooths the flow of displaced workers into the local and regional labour market and increases the likelihood that workers can find work due to the larger window in which jobs need to be found
- can help workers adjust to the psychological impacts of losing their job and the likelihood of finding work of similar type and level
- provides time for impacted suppliers and other firms to find new markets or opportunities

Evidence suggests that in such situations, workers become more open to opportunities offered in assistance packages to help them change occupations from declining to growing sectors, while firms have greater opportunities to prepare their business (and suppliers) for the flow-on effects of the closure.

### 8.1.3 Large firm closures can leave a long tail that may require continuing government attention.

As noted earlier, despite the best intentions of governments and other stakeholders, displaced workers can find it difficult to engage with services offered in response, or to rationally consider their career options. A period of 'grieving' is likely to occur as they come to grips with the change (Bridges: 1995) and this can affect uptake of programs designed to assist.

Such groups of alienated workers run a significant risk of missing the support when it is available, so when it is needed they are unable to differentiate themselves from other unemployed workers. The result can be that these workers join the ranks of long term unemployed or exit the workforce entirely (Armstrong *et al.*: 2008).

Interventions that take into account not just the closure of the firm but also the mindset of its employees could help to reduce the length of the 'tail' and lead to better, more broad-based sustainable outcomes for the displaced workers'. Ensuring regular 'check-ins' to obtain data and feedback is equally important. Energy and resources are present at the early stages but can dissipate as the media and others lose interest. It is therefore important to have some flexibility about the structure and length of a response, and avoid suspending efforts prematurely. Maintaining positive and active engagement with the wider community can also assist to maximise participation in programs designed for the retrenched workers.

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