Managing Labor Issues in SOE Reform: Azerbaijan Railways' Experience

Rationalizing Azerbaijan Railway’s workforce was part of reforms to improve rail services in the country. Photo credit: ADB.

The planning and implementation of the state-owned enterprise’s labor rationalization program offer lessons in managing complex and challenging issues.

Published: 22 August 2022

Introduction

For decades, state-owned enterprises (SOEs) have played a key role in the delivery of vital infrastructure and public services in many countries. Governments also leverage SOEs to develop strategic sectors that have high-risk, low financial return and a lack of interest from private investors.

Often shielded from private sector competition, subsidized, and even used as job creation centers by governments, SOEs tend to have lower labor productivity and higher labor costs. The nature of these state protections and support is likely to create inefficiencies and can lead many SOEs to underperform and become a fiscal burden.

There were efforts to privatize SOEs over the last 20 years in many parts of the world, including in Asia, but many of them remain active players in key sectors. To address operational inefficiencies,
governments took steps that typically involved restructuring the SOE’s workforce.

The International Labour Organization (ILO) provides standards for the protection of workers in the case of enterprise restructuring. ILO Convention Nos. 102 and 158 as well as Recommendation Nos. 67 and 166 are designed to prevent or minimize the negative impacts of economic and labor market changes on workers and their families. The Asian Development Bank (ADB) also articulates the rationale for and shares country experiences on SOE reform, discusses opportunities and challenges in SOE reform, and offers advice on the design and management of labor adjustment programs.

However, the process of dealing with labor issues—including inevitable job losses—as part of SOE restructuring efforts is still a complex, difficult, and publicly unpopular undertaking for governments.

Rationalizing Azerbaijan Railway’s Workforce

The case of the Azerbaijan Railway Sector Development Program offers important lessons that can inform the implementation and management of similar SOE labor restructuring exercises. The program was part of the government’s efforts to reform several sectors of its economy, with focus on addressing financial and operational management issues as well as institutional inefficiencies in SOEs.

In December 2017, ADB approved a $250-million policy-based loan to support a series of reforms to improve corporate governance and financial management of Azerbaijan Railways, particularly debt management and financial control and reporting. This is part of the $400-million ADB loan package to help strengthen the railway sector, with the remaining $150 million loan earmarked to modernize and rehabilitate 166 kilometers of the North–South Railway Corridor. Agence Française de Développement co-financed this program with a $75-million policy-based loan and a $100-million loan for the modernization project.

The policy-based loan also covered the difficult task of rationalizing the railway’s workforce to improve operational efficiency. Under the project, Azerbaijan Railways developed a time-bound, multi-option labor rationalization plan that used various strategies to streamline its workforce. These include regular retirement, voluntary separation, nonrenewal of time-based contracts, removing barriers to employees’ departure, outsourcing of noncore activities, and staff relocation and retraining programs.
Strengthening HR Capacity and Data Gathering

At the start of labor restructuring in 2017, Azerbaijan Railways had nearly 20,000 permanent employees and more than 2,000 contractual staff, which needed to be decreased by 5,000 (about 23%) in total by the end of the exercise. The railway company had a 5-year human resources (HR) strategy in place and started gathering data on headcount, conducting job analysis, and identifying critical positions in the organization. To further prepare for the restructuring exercise, HR capacity was enforced by developing a corporate HR policy, which defined the vision and mission, strategy for development and improvement, and the roles and responsibilities of HR managers. At headquarters, the HR structure was reorganized into seven functional divisions, namely: Staff Planning, Recruiting, Career Management, Learning & Development, Compensation, Labor Relations, and Employee Relations and Social Work.

Various HR systems were developed, which led to the approval of 19 regulations, including the Staffing Plan, Compensation Policy, Staff Appraisal System, and Training Master Policy to improve efficiency and effectiveness. These efforts continued well beyond the labor restructuring exercise, with four additional regulations currently in the pipeline.

A new HR information system was also rolled out to consolidate data that were previously kept in separate spreadsheets. This comprehensive database—consolidated at headquarters—enabled managers to have a more accurate evaluation of employee headcount and a solid baseline for conducting job analysis and identifying critical roles.

Comprehensive learning courses on the HR program and capacity development were delivered to staff. Qualified HR professionals from the private sector were recruited, including an HR director who was tasked to take charge of the labor restructuring program.

In addition, internal champions were appointed to promote the labor restructuring agenda. An HR committee was formed, headed by the Azerbaijan Railways’ deputy chairman and supported by officials from HR and the rail sector reform program’s project implementation unit to monitor the implementation of the labor rationalization plan and handle related issues.

While most of the goals were not expected to be met until several years later, some immediate impacts of these efforts include the collection of reliable data that allowed management to better assess the size and scope of its workforce.
Communications and Consultation with Stakeholders

Factoring in the social, political, and economic realities on the ground, Azerbaijan Railways management crafted a communication plan that focused on strategically targeting two stakeholders: the employees and the country’s political leaders, who can influence the reform process and be affected by political consequences of the restructuring exercise. This enabled the HR committee to secure a consensus among railway managers and political leaders on how to proceed with the labor restructuring process.

Management considered it critical to ensure that the process is managed with proper consultation, outplacement, and retraining support, especially for employees deemed vulnerable due to age, gender, or incapacity.

HR managers wrote to affected employees and conducted one-on-one meetings with an average of 25 employees per day to explain the process and discuss options in the first 2 years of the labor restructuring exercise. The HR Committee’s decision to conduct one-on-one meetings allowed space for discussion and clear information sharing. It worked to prevent rumors and false information that can derail the change process. Clear and direct messages enabled the organization to address employees’ fears as well as avoid unrest, resistance, and negative publicity that usually result from poor access to information.

In addition, 17,506 employees completed programs offered by a new training center, which enhanced the capacity of retained employees while preparing others for new roles within the company or new jobs elsewhere.

Over 350 railway employees were also transferred to Azerbaijan's Agency for Sustainable and Operative Social Provision under the Ministry of Labor and Social Protection of Population. The agency operates a single-window system for labor, employment, social security, and other social services to ensure the welfare of the population and deliver public services to vulnerable groups.

Results of Labor Restructuring

Azerbaijan Railways managed to achieve its 23% headcount reduction target and continued to maintain an optimal staffing level of 16,936 as of May 2022.

Most complaints from laid-off employees were resolved, and only about 5 to 6 cases were brought to the labor tribunal. Overall, these indicate that terminations were done in a socially acceptable manner and in compliance with the country’s labor laws.

Reforms implemented also showed positive results not only in improving business processes but also—and perhaps more importantly—the work culture. Higher salaries coupled with attractive career prospects and a high potential for advancement allowed the SOE to compete with the private sector and retain good managers and young professionals. Both management and staff embraced a more
collaborative way of working and demonstrated stronger commitment at work and willingness to take on responsibilities—a mindset often not found in traditional SOEs.

By putting special focus on employee relations, Azerbaijan Railways was also able to identify effective programs and opportunities to improve not just corporate management but also working conditions. The reforms allowed the company to provide free medical services, health and life insurance benefits, as well as discounts on mobile tariffs, fitness, and even recreational services for its staff.

Lessons and insights

Laying off thousands of employees is a difficult endeavor for any SOE or government, more so amid economic contraction that stifles job creation. While there is no one-size-fits-all solution on how to proceed with labor reform in SOEs, several lessons emerge from this experience.

- **Set clear targets.** This improves the success rate of a labor restructuring exercise in any economic environment as it provides the direction of labor restructuring activities and benchmarks for measuring progress. To inform target-setting, it is vital to have the right tools and accurate data to analyze the situation properly and assess the size and scope of labor restructuring.

- **Engage with stakeholders, build consensus, and identify champions.** Building consensus among stakeholders, recruiting strong champions, and putting together a team will enable SOEs not only to gather support for a difficult labor restructuring campaign but also keep the process moving and ensure progress toward targets.

- **Define a strategic plan.** A master plan that elaborates the strategies and key components of labor restructuring is crucial in guiding and synching efforts of various stakeholders. This strategic plan must not only satisfy labor restructuring goals but also be socially acceptable and take the country’s economic and political dynamics into consideration. Depending on the political, economic, and social conditions, as well as on the nature of the SOE, a mix of options may be used. These include enforcing regular retirement; voluntary departures; early retirement; removing barriers to staff departures; outsourcing of noncore activities; staff retraining and relocation; correcting payroll errors, such as identifying ghost workers; freezing hiring; and nonrenewal of time-based contracts.

- **Communicate clearly and often.** Early communication and consultation with stakeholders help to assure that adequate measures are being taken to soften the impacts of labor restructuring on affected employees and their families and to secure political support for the reform. Communication can also help achieve transparency throughout the process and ensure that the restructuring is viewed by the employees and other stakeholders as a fair process, even if job losses could not be avoided.

- **Integrate a comprehensive HR strategy in SOE reform.** Focusing only on a workforce rationalization plan will not bring lasting solutions to HR issues and will not support improvements needed in operations management and corporate culture. An HR development plan will enable SOEs not only to hire and retain the right people, manage employees, and ensure efficiency but also facilitate future expansion programs and allow the enterprise to cope with future changes.
The Azerbaijan Railways experience shows that having clear targets, developing a strategic plan, and communicating effectively with various stakeholders, among other measures, can mitigate the risks associated with a complex and challenging labor restructuring exercise. Implementing a well-planned restructuring program minimizes the impact on workers while also helping unlock an SOE’s potential to deliver greater social and economic value to the country.

The authors wish to thank international labor restructuring expert André Côté and officers of Azerbaijan Railways, led by Azad Huseynov, Head of Strategy and Corporate Development Department, and Asad Mammadov, Head of Risk Management Division, Strategy and Corporate Development Department for their contributions to the development of this article.

Resources


Haidy Ear-Dupuy
Unit Head, NGO and Civil Society Center, Sustainable Development and Climate Change Department, Asian Development Bank

Haidy leads NGOC in providing strategic support and capacity development for ADB’s effective engagement with civil society. She previously supported due diligence on ADB-financed projects to ensure fulfillment of ADB’s social protection requirements, and coordinated ADB’s internal and external engagements on labor-related issues. Before joining ADB, Haidy was the Director of Advocacy Policy and Communications for World Vision Cambodia. She holds master’s degrees in Agricultural and Applied Economics and Conservation Biology and Sustainable Development from the University of Wisconsin-Madison.

Jurgen Sluijter
Senior Transport Specialist, Central and West Asia Department, Asian Development Bank

Jurgen Sluijter is a senior transport specialist for Central and West Asia at ADB. He is project officer for the Azerbaijan Railway Sector Development Program, which comprises a $250-million policy-based loan linked to rail sector reform and a $150-million loan for the modernization of the North–South Railway Corridor. Before joining ADB, he worked as a consultant in international transport projects in Eastern Europe, Middle East, and Asia. He holds master’s degrees in Economic Geography and International Economics.
Asian Development Bank (ADB)

The Asian Development Bank is committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. Established in 1966, it is owned by 68 members—49 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

Follow Asian Development Bank (ADB) on