Impact of the recession on age management policies

Case study: MOL Group, Hungary

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Organisational background

The Hungarian Oil & Gas Company Plc was founded in 1991 as a successor of Hungarian Oil & Gas Trust (Hungarian acronym – OKGT) with the aim of integrating the entire Hungarian hydrocarbon industry. During the last two decades, the company has grown into one of the largest multinational corporations in Central and Eastern Europe (CEE) and is now known as the MOL Group. Before focusing primarily on MOL Plc in Hungary (hereinafter MOL) and the experience of older workers there, we will first introduce the activities and main performance indicators of the entire MOL Group.

Commercial activities at MOL include oil and gas exploration and production, refining, marketing through the filling station network, gas transmission, power and heat generation and petrochemical manufacturing. (The NACE Rev. 2 classifications for these activities are 06.10, 06.20, 09.10, 19.20, 35.11, 35.14, 35.21, 35.22, 35.23, 46.71 and 47.30.)

MOL Hungarian Oil and Gas Company is a public limited company with no majority shareholder. The Hungarian government is still part owner. The MOL Group divides its activities into five segments (for more details, see its *Annual Report 2010*): exploration and production; refining and marketing; petrochemical (TVK and Slovnaft Petrochemicals); gas and power; and natural gas transmission (FGSZ).

As of December 2010, the MOL Group had 17,882 employees, of which approximately 5,339 were employed at MOL Plc (Hungary). The 2010 net sales revenue for the entire MOL Group was HUF 4,297 billion (EUR 16 billion at the time of writing). In 2010, net profit of the MOL Group increased by 6% from 2009 to HUF 100.8 billion (EUR 3.74 billion at the time of writing).

In the MOL Group, 27% of the workforce was above 50 years of age in 2010 (25% in MOL Plc in Hungary). The Group emphasises job stability, with an average length of service of 14.3 years. The majority of workers (46%) have been with the company for at least 10 years, and at most 30 years. There is a relatively low (10%) percentage of workers with service time of over 30 years (2010 data).

Table 1 gives an overview of workforce demographics. The majority of workers have full-time and indefinite contracts. The total number of employees was stable from 2008 to 2010. The distribution of employees across age groups between men and women has been roughly constant. The proportion of female employees is around 25% and is relatively low compared to other sectors. Staff turnover is on average relatively low (below 10% from 2008 to 2010). It was and remains the highest among older employees, largely linked to the option of early retirement, as discussed further later in this section. Staff turnover at MOL Hungary in 2010 was 17% for employees aged over 50, compared to a 4% turnover rate for employees aged between 30 and 50. Five per cent of the workforce was close to retirement in 2010.

Indicator	2008	2009 (w/o INA*)	2010 (w/o INA)	2010 (MOL alone)
Total workforce	17,338	17,963	17,882	5,339
Only employees in Hungary (full time)	9,226	9,109	9,107	5,271
Total workforce according to type of work contract				
Contract for unlimited term	n.a.	16,011	14,746	5,251
Contract for limited term	n.a.	634	1619	88
Workforce – by gender				
Male	75.2%	77.4%	77.3%	74.4%
Female	24.8%	22.6%	22.7%	25.6%
Workforce – by age groups				
Below 30	12%	13%	12.6%	12.7%
30–50	60%	60%	60.1%	61.8%
Above 50	28%	27%	27.3%	25.5%
Max. 5 years ahead of retirement			n.a.	5%
Leavers				
Turnover rate	6.6%	5.5%	8.3%	7.4%
Leavers – by entity				
MOL Hungary	519	559	753	396
Leavers – by gender				
Male	654	359	1057	283
Female	250	142	348	113
Leavers – by age groups				
Below 30	111	44	272	38
30–50	473	163	466	121
Above 50	320	294	677	237
Turnover rate – by age groups				
Below 30	7%	2%	13%	6%
30–50	6%	2%	5%	4%
Above 50	8%	7%	15%	17%
Employees represented by trade unions	93.3%	91.4%	93%	100%
Overage length of service (year)			n.a.	14.3

Source: MOL Plc.

* Note: *INA-Industrija nafte d.d. (INA d.d.) is a joint stock company with the* Hungarian oil company MOL Rt*. dealing in the areas of oil and gas exploration and production, oil processing, and oil and oil products distribution. INA was consolidated into MOL Group in 2009. Information is for MOL Group unless indicated that it pertains to MOL Hungary.*

The percentage of unionised workers is high: 93% in MOL Group and 100% in MOL Hungary (see Table 1). There are national framework regulations to guide the company's relationships with worker representation bodies. The main focus of interaction between the company and worker representation is the annual negotiation of collective agreements (CA). Collective bargaining is traditionally initiated by employers. In addition to the trade unions, all employee representative bodies are invited to the bargaining process. In particular, as required by Hungarian labour law, the elected works council has the right of consultation with respect to decisions affecting the workforce for enterprises with more than 50 employees. According to our interviewees, the works council engages with HR policy-related proposals concerning specific employee groups (including age groups). At present, employee representation and the company share a common interest in keeping early retirement as an option for workforce management despite the Hungarian government's efforts to constrain early retirement options as a way to increase economic activity among older workers between 2008 and 2010.

Policies and practice in relation to age management

MOL faces a number of challenges related to an ageing workforce. As a formerly state-owned company, there is a tradition of lifelong careers that makes MOL attractive for employees. HR policies currently continue to support lifelong employment. The company's approach is to seek to employ workers as long as their physical and mental condition remain sufficient to fulfil their assignments. In the oil and gas industry, MOL finds this has often resulted in early retirement, which in MOL occurs on a consensual basis. The key challenge for MOL is to deal with an ageing workforce and incentivise older employees to ensure knowledge is shared across the organisation before workers leave the organisation. This is especially pertinent as early retirement remains a particularly attractive option in Hungary and is commonly used as a workforce management tool (see the accompanying national report on Hungary).

Our interviews show that knowledge management is of key importance to MOL. As such, MOL is focused on ensuring that the right skill set is present within the organisation to ensure that when an individual retires, succession is arranged. It supports older workers through seniority-related payments, a focus on equal opportunities, personalised consultation with those close to retirement and training and development. The latter focuses on building areas of senior expertise and best practice within the industry. The idea is to recognise and develop senior experts in the business and facilitate effective knowledge transfer.

In terms of financial support, older workers experience benefits through performance management practices. Performance-based and supplementary compensation tend to reward workers with long tenure, who tend to be awarded additional performance bonuses and supplementary income based on the tasks they typically perform and the level of seniority they have achieved. As defined in MOL Group guidelines and in collective bargaining agreements (CAs), all employees are entitled to compensation based on common principles regardless of gender, type of contract, citizenship or any other criteria. Within these guidelines, individual arrangements are fixed in labour contracts. According to CAs, compensation schemes and additional social services may be provided voluntarily, at a higher level than relevant labour laws require (this mostly concerns shift allowances, supplements and other special benefits). This allows managers to reward cases of extraordinary performance or that demonstrate (long-term) loyalty. The managerial compensation system consists of short- and long-term incentives, such as bonuses, and a complex long-term incentive linked to the MOL share price and the company's performance (*Annual Report 2010*). This compensation scheme is based on a job grading system and depends on performance.

MOL also provides an additional benefit system (amounting to 20–40% of the annual compensation package). This is subject to national tax, health and pension requirements. The system provides employees with a flexible choice of social (e.g. health care services/payments, childcare and/or pension, insurance) and other non-social (e.g. internet) fringe benefits. Though not targeting older workers, this flexibility provides space for workers to adjust their benefit packages according to specific needs. Notably, however, the company does not provide individualised long-term pension schemes for their employees.

MOL also tackles the challenges of age management through the company's equal opportunity plan (EOP). The explicit goal of the EOP is to avoid potential discrimination, particularly regarding conditions of employment, career moves, compensation and rewards, and implementation of development programmes. MOL has had equal opportunity plans before plans. The current EOP (2010–2012) specifies the responsible staff and establishes deadlines for actions. One focus for this plan is senior employees aged over 50 years. Older workers can also raise any concerns with an Equal Opportunity Board and an equal opportunity officer, designated in 2010 (*Annual Report 2010*). In 2010, MOL also joined the Employers' Equal Opportunity Forum, the first professional lobby group in Hungary that brought together equal opportunity mediators within companies and provided them with a strong platform to fight for equal opportunity.

In addition to recognising the contributions of older and longer-standing workers through performance management, MOL also approaches age management through training and development policies to facilitate knowledge accumulation and transfer between employees. The company's training and development concept consists of the following elements:

- 'Global thinking and doing', shifting business efficiency and global processes in focus so as to collect and redistribute best practices from training and development programmes from a global to a local level.
- 'Learning instead of training', focusing on internal knowledge transfer and complex, long-term leadership and professional development.
- Concentrating on individualised development and, aside from building talent pools, identifying senior experts.

In training and development programmes, MOL pays specific attention to workers with longer tenure in order to draw on their accumulated know-how. The aim of these policies and programmes is to share and transfer this knowledge to newer employees to ensure that a new generation of workers can manage the variety of tasks required. Examples of such efforts include internal human capital development programmes (of which there are more than 20) and the Career Management System (CMS). All older employees (above 50 years) can actively participate in human development programmes as mentors and supervisors.

In particular, the CMS works to identify and support planning for successions and organisational/employee development based on the requirements set by the business strategy (*Annual Report 2010*). The programme does this through formal targeted annual succession planning cycles that provide opportunities for individual capacity development, for both experts and managers. Through these cycles, the CMS creates an internal 'talent pool' of individuals that can provide professional mentorship to employees within MOL. These professional mentors are often senior employees (foremost in the Production and Refinement segments).

Overall, MOL's HR policies for recruitment, performance management, training and development, and equal opportunity provide scope and opportunity for workers of different age groups. In particular, policies and programmes are in place to reward older workers with longer tenure through performance management as well as to facilitate knowledge transfer from these workers to newer employees when these workers approach retirement. In addition to this wider support through HR policies, MOL has in place a few measures targeted specifically at older workers. First, retired/retiring employees (also those who are five years ahead of retirement) are provided with:

- an information leaflet and personal consultation for retiring employees;
- a foundation for retired employees established in 2008 (MOL Care Foundation/MOL Gondoskodás Alapítvány), which provides both financial support for those in need and socialising programmes;

- close cooperation with worker representative institutions to obtain agreement on early retirement.

Following common practice in Hungary, early retirement remains an option and is incentivised in MOL, with the company offering varying incentives depending on circumstances, such as the company paying contributions to pension insurance for up to five years (consistent with practice outlined in the accompanying national report on Hungary). According to interviewees, the early retirement system is based on a mutual understanding of the employees' and the company's best interests. If an employee wishes to retire early and is legally eligible, the company tends to act supportively and lets the worker go in less than six months.

Except for recent employee data provided above, MOL lacks records on longer-term employee statistics. However, HR priorities in 2010 suggest there will be a decline in average years worked for MOL in the next decade.

Changes in age management policies and practice post-2008

During the financial crisis, there was no significant drop in the company's net revenue in 2009 and 2010. Before the crisis, in 2006, MOL instituted a medium-term comprehensive Efficiency Programme. This resulted in downsizing the company's workforce and launching a new human capital development programme.

The new human capital development programme brought about dismissals and the termination of unnecessary assignments. Four per cent of assignments at MOL were affected (approximately 220 to 240 employees); of these, no more than 60 employees were made redundant as a result of the recession. Of those that faced dismissal, most were older workers who were eligible for retirement and early retirement (see Table 1).

Through these measures, the company was already streamlining its management structure and workforce when the 2008 financial crisis hit. According to interviewees, the rationalisation of the workforce would not have been substantially different in the years 2009 and 2010 in the absence of the economic crisis.

From 2006 to 2010, these efficiency measures did not result in any specific changes to age management practices. No new initiatives were launched to support age management during the recession. MOL retained its strategic focus on younger and newer employees and continued to engage with older workers through knowledge transfer measures, performance management and support for early retirement.

Summary

The key challenge for MOL is to harness the skills and experience built up by an ageing workforce and to ensure the effective transfer of knowledge when older workers come to the end of their career. The key question for MOL is to incentivise older workers to participate in these knowledge management programmes and facilitate orderly transition as it integrates a younger generation ('generation Y', as it is called in the strategic HR documents; see MOL, 2011).

Early retirement has been a common and attractive option in Hungary and is normal practice in this industry, as work can be physically and mentally demanding. In MOL, early retirement remains part of HR policy and is agreed on a consensual basis. However, older workers are also encouraged and incentivised beyond the age of 50 to participate in training and development and knowledge management programmes.

This is part of a range of age management measures consisting of seniority-related payments, a focus on equal opportunities, training and development, and personalised consultation with those close to retirement.

When the recession hit, the pressure to contain costs was not dramatic, as the company had already embarked on a strategic efficiency programme launched in 2006. This programme aimed at enhancing the operational efficiency of the company for a three-year period.

Therefore, the firm's HR strategy in place was not particularly challenged by the crisis. There were no redundancies en masse and the number of older employees leaving the company did not increase significantly. As such, there was no explicit change in how MOL supported older workers and it has been able to maintain its policy priorities amidst wider financial crisis. A few small changes are noted by HR management, such as some rationalisation of the schedule and cost of employee training as well as a firmer approach to trade union negotiations about collective agreements. However, these have not altered the priorities or content of HR management.

Contact persons

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