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THE IMPACT OF COVID-19 ON DIGITALISATION IN OUR SECTORS

REGIONAL WEBINAR

26 JANUARY 2021

DIGITALISATION IN THE CONTEXT OF COVID-19

- **It is beleived that** COVID-19 pandemic provides a boost to companies and governments to support and accelerate digitalization
  - According to a McKinsey study:
    - *„The number of people in Central and Eastern Europe (CEE) who have accessed at least one online service **has risen by 15 percent points** since the start of the COVID-19 pandemic"*
    - *„At the peak of the pandemic, there were **almost 12 million new users of online services**—more than the population of Slovakia, Croatia, and Slovenia put together."*
- However, **industry seems to lag behind other sectors** in terms of digital adoption and adaptation
  - Digitalization sees growth in other sectors: online banking (+21%), online grocery shopping (+18%), digital government services (+13%)
- The health and economic crisis threatens to **distract funds from digitalization** in capital intensive sectors such as industry
  - IMP projects GDP to contract by around 7 pp in Europe in 2020 due to COVID-19
    - „Real GDP fell by about 40 percent in the second quarter of 2020 (annualized quarter-over-quarter), with deeper contraction in advanced Europe"

WILL THE CRISIS PROVIDE AN IMPETUS TO DIGITALIZATION IN THE SHORT OR MEDIUM TERM?

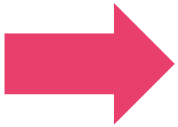
Digitalization – a factor of resilience during pandemic crisis?

A company with digital tools => more reactive to sanitary constraints

A very automated factory => more adapted to continue operation

It is very rare that a factory is 100% automated and fully controlable remotely

Therefore, is the crisis favoring the acceleration of the digitalization in industry?



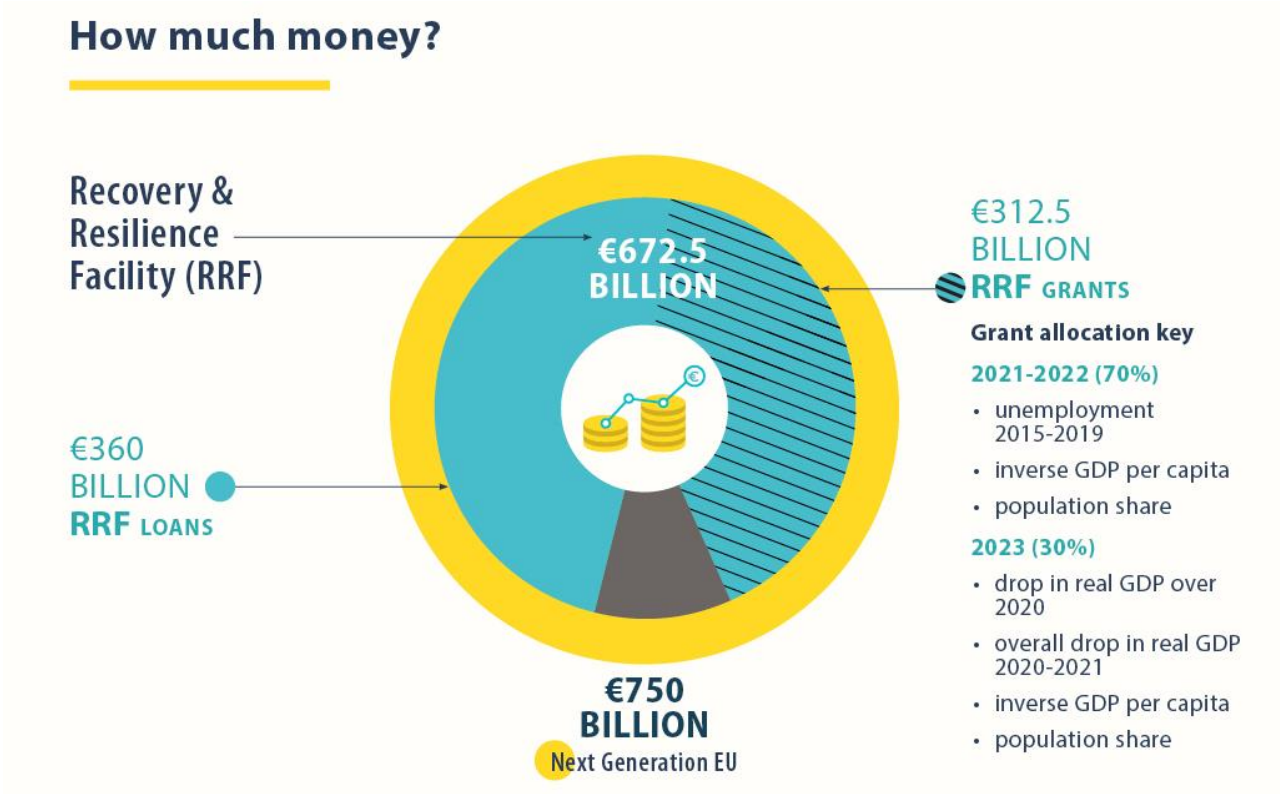
Factories are more resilient if digitalized and automated, both in terms of sanitary restrictions and in terms of international competition (lower risk of relocation)

A significant limit: lack of cash during the crisis.
ROI depends also on the cost of labour.

Is telework an alternative?

A NEW OPPORTUNITY FOR THE INDUSTRY: THE NEXT GENERATION EU FUNDS (1)

- On 18 December 2020, the Council and the Parliament reached a provisional agreement on the Recovery and Resilience Facility (RRF) of €672.5 billion
- The facility is at the heart of the EU's extraordinary recovery effort, Next Generation EU (NGEU): the €750 billion plan agreed by EU leaders in July 2020.



A NEW OPPORTUNITY FOR THE INDUSTRY: THE NEXT GENERATION EU FUNDS (2)

How will the money be used?

Funds disbursed to member states are based on **national recovery and resilience plans**, which include reforms and public investment projects. Plans must:

align with EU priorities

boost **growth, job creation** and economic & social **resilience**

support the green transition

at least **37%** of resources contribute climate action and environmental sustainability

reflect country-specific challenges

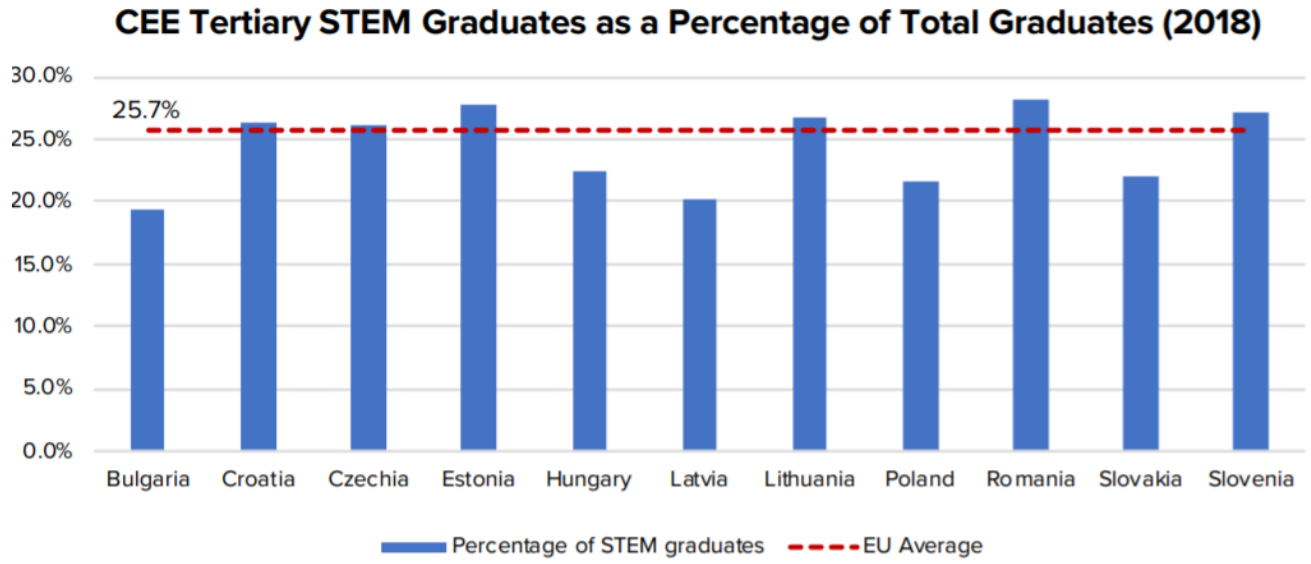
in line with **European Semester** country-specific recommendations

foster digital transformation

at least **20%** of resources contribute to the EU's digital transition

A REGIONAL PERSPECTIVE: STRENGTHS OF CENTRAL AND EASTERN EUROPE IN THE ROAD TO DIGITALIZATION (1)

- With few exceptions, **education systems** cover STEM subjects broadly
  - science, technology, engineering and mathematics



Question for Romanian unions: in statistics, the share of STEM graduates appears higher than the EU average. Is in reality the education system providing technical skills adapted to labour market requirements?

A REGIONAL PERSPECTIVE: STRENGTHS OF CENTRAL AND EASTERN EUROPE IN THE ROAD TO DIGITALIZATION (2)

- **Specialization** in digital technologies:
  - Financial technologies: Lithuania
  - AI: Slovenia, Bulgaria, Lithuania
  - E-governance: Estonia
  - Cybersecurity: Estonia, Czech Republic, Romania
  - Business-process outsourcing / SSC: Poland, Romania, Slovakia, Hungary, Bulgaria
- Integration into **critical supply chains**
  - CEE plays an important role in labour-intensive sectors, such as manufacturing, warehousing, logistics
  - Ex. Automotive industry
- **Lack of legacy technologies** allows to pursue digital transformation without the inertia of outdated systems

A REGIONAL PERSPECTIVE: STRENGTHS OF CENTRAL AND EASTERN EUROPE IN THE ROAD TO DIGITALIZATION (3)

- **Growing technology ecosystem**

Central and Eastern European Unicorns

COUNTRY	UNICORNS (COMPANY WORTH $1 BILLION +)
Estonia	TransferWise, Bolt, playtech
Poland	allegro, CD PROJEKT
Romania	UiPath, eMAG
Hungary	LogMeIn
Slovenia	Outfit7
Czech Repuplic	avast, KIWI.COM
Lithuania	Vinted

EXAMPLE OF A NATIONAL INITIATIVE: THE FUTURE INDUSTRY PLATFORM IN POLAND

- Started in 2016, with a total planned investment of **€235 billion over the next 25 years**, the Plan seeks to unleash the potential of the economy to achieve development that improves the quality of life in Poland.

SWOT Matrix for the Future Industry Platform

Strength	Weaknesses
• The initiative combines regulatory activities with practical business approach. • All interested stakeholders (e.g. business, universities, regional governments, etc.) are involved.	• Given the ground-breaking character of the initiative, there are delays in the legislative process before implementation. • Low SME awareness.
Opportunities	**Threats**
• Adoption of a coherent strategy based on different perspectives on digitising industry from diverse stakeholders.	• Risk of violation of competition law (e.g. state aid rules). • Complexity of developing a sustainable mechanism for financial support (public to private transition).

Question for Polish unions: is the Future Industry Platform useful for workers?

IMPACT OF COVID-19 ON DIGITALIZATION

- According to the interviews…
- …COVID-19 has not accelerated nor decelerated the digitalization in Polish industry
  - in the automotive industry, the digitalization was suspended during the COVID-19 crisis due to factory closures
- but rather **exposed structural deficiencies**
  - Long supply chains
  - Lack of competencies in key areas
  - Long-term underinvestment
- and **employment-related issues**
  - Unstable and atypical employment
  - Insufficient training
- However, in the long term, the **pandemic could boost investment in digitalization** in industry
  - The process of **robotization** could be accelerated **due to the costs of lost times**.
  - The development of SSC could be boosted.

POLAND: PRECARIOUS WORK CAUSED BY UNJUST DIGITAL TRANSITION AT THE CENTRE OF UNION WORK

- According to NSZZ Solidarnosc, the digitalization has caused the emergence of atypical forms of employment and precarious work, such as platform work
- NSZZ Solidarnosc addresses the regulation of new forms of work in discussions with the government and employers' associations
  - The **European Framework Agreement on Digitalisation** signed at the Tripartite Social Summit on 23 June 2020 will serve as a basis for discussions at national level

1. DIGITAL SKILLS AND SECURING EMPLOYMENT
2. MODALITIES OF CONNECTING AND DISCONNECTING
3. ARTIFICIAL INTELLIGENCE AND GUARANTEEING THE HUMAN IN CONTROL PRINCIPLE
4. RESPECT OF HUMAN DIGNITY AND SURVEILLANCE

IN THE POLISH AUTOMOTIVE INDUSTRY, THE TRANSITION TOWARDS ELECTRICAL VEHICLES IS NOT SUFFICIENTLY ADDRESSED IN THE SOCIAL DIALOGUE

- The government has not put in place a specialized team for the automotive industry and is almost absent in the dialogue between unions and employers
- There is an increased risk of lack of qualified workforce for the new types of production, and therefore for the loss of jobs in the long term.
- In some cases, at company level (i.e. Toyota), works councils were consulted by employers on issues related to technological changes and specific agreements guaranteed maintaining employment in case of such changes.
- According to the unions, when it comes to adapting to the technological changes, companies must cover almost in full the cost of training and reskilling of the workers.
  - The response of the Government to the electrification of the vehicles is almost nonexistent.
  - In other sectors, the dialogue at the national level is *„simulated or absent".*

Question for Hungarian unions: what is the level of dialogue in the Hungarian automotive sector on issues related to digitalization, automation, electrification of vehicles?

IN POLAND AND ROMANIA, THE STRUCTURE OF THE SOCIAL DIALOGUE MAKES IT DIFFICULT TO ELABORATE A COMMON WORKERS' POSITION REGARING THE DIGITALIZATION IN INDUSTRY

- The issues are relatively new on the agenda.
- During the COVID-19 pandemic, the response of the unions was towards ensuring the protection of employment and workers' revenues…
- …rather than elaborating a dialogue on digitalization.

- Polish unions suggest a European rather than a national approach,
  - consisting in the **development of partial (specialized or industry-specific) framework agreements** at the European level.

- Adapting to the **digital communication** is also a difficult challenge for the unions.
  - In Poland, unions have not found an efficient way to replace physical meetings with virtual conferences.

Question for Bulgarian unions: do unions have a common formal position on digitalization in industry? How is the dialogue on the impact of digitalization structured at national level?

CHEAP LABOUR FORCE IS AN OBSTACLE TOWARDS DIGITALIZATION

- Wage increases in industry should stimulate the adoption of digital and robotic solutions.
  - In Polish automotive industry operations such as welding, varnishing and other tasks which are harmful to people and the environment are still performed by human, seen as cheaper than for instance German labour and less capital intensive than automated solutions.

- The COVID-19 has had a negative impact on collective bargaining and wage increases and therefore indirectly has halted incentives for digital investments.

REGULATING TELEWORK IS A DIFFICULT TASK

- During the pandemic, **Polish unions have not always managed to reach agreements on telework**, for instance in the automotive industry
- However, discussions are under way at national level. At least **4 subjects** on which unions and employers disagree and the **Government has to regulate:**

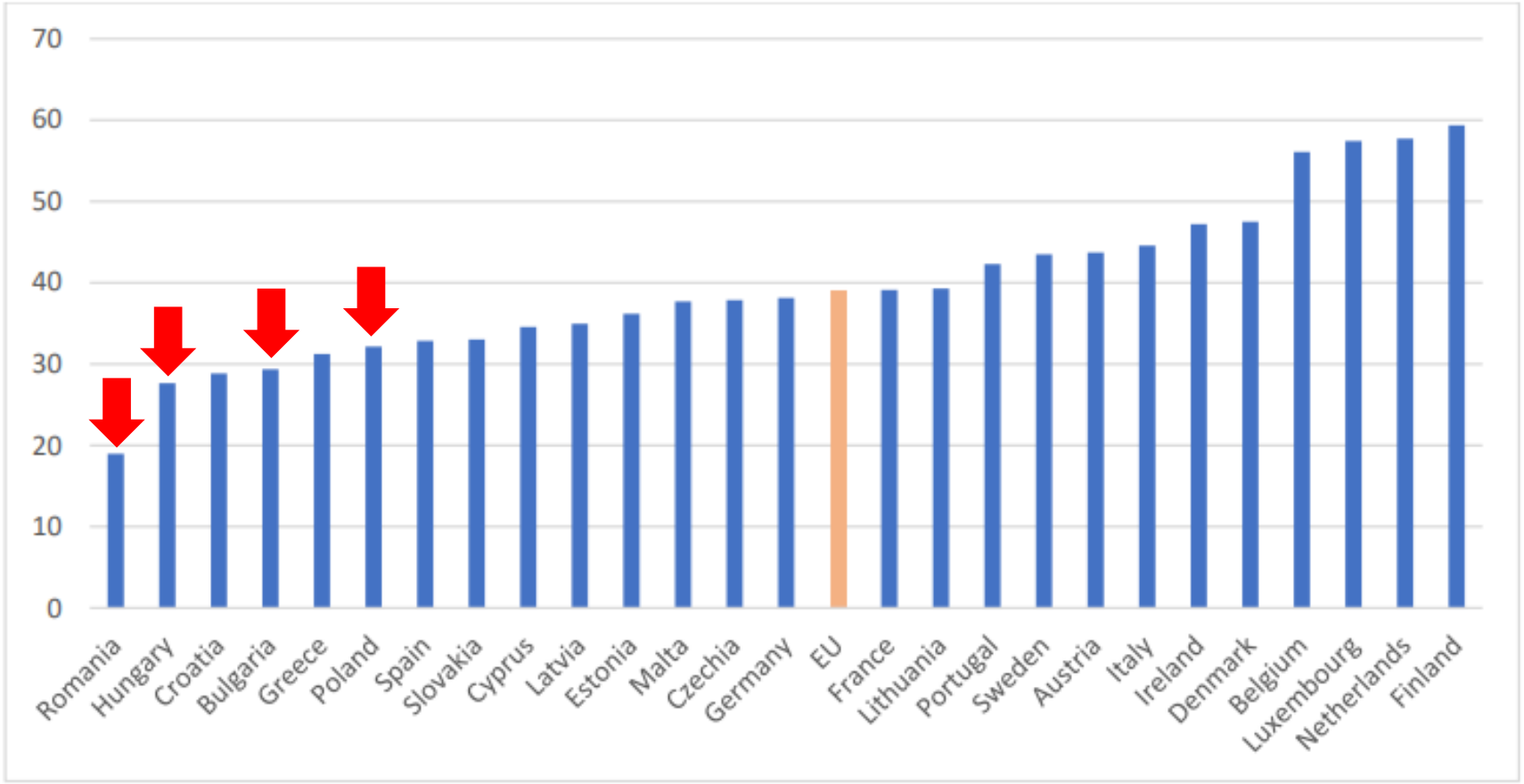
Allowing workers to spend 1 day / week in the office

Employer's responsibility in terms of Health and Safety for workers working outside the premises of the company

Employee's right to decide the place from where to work

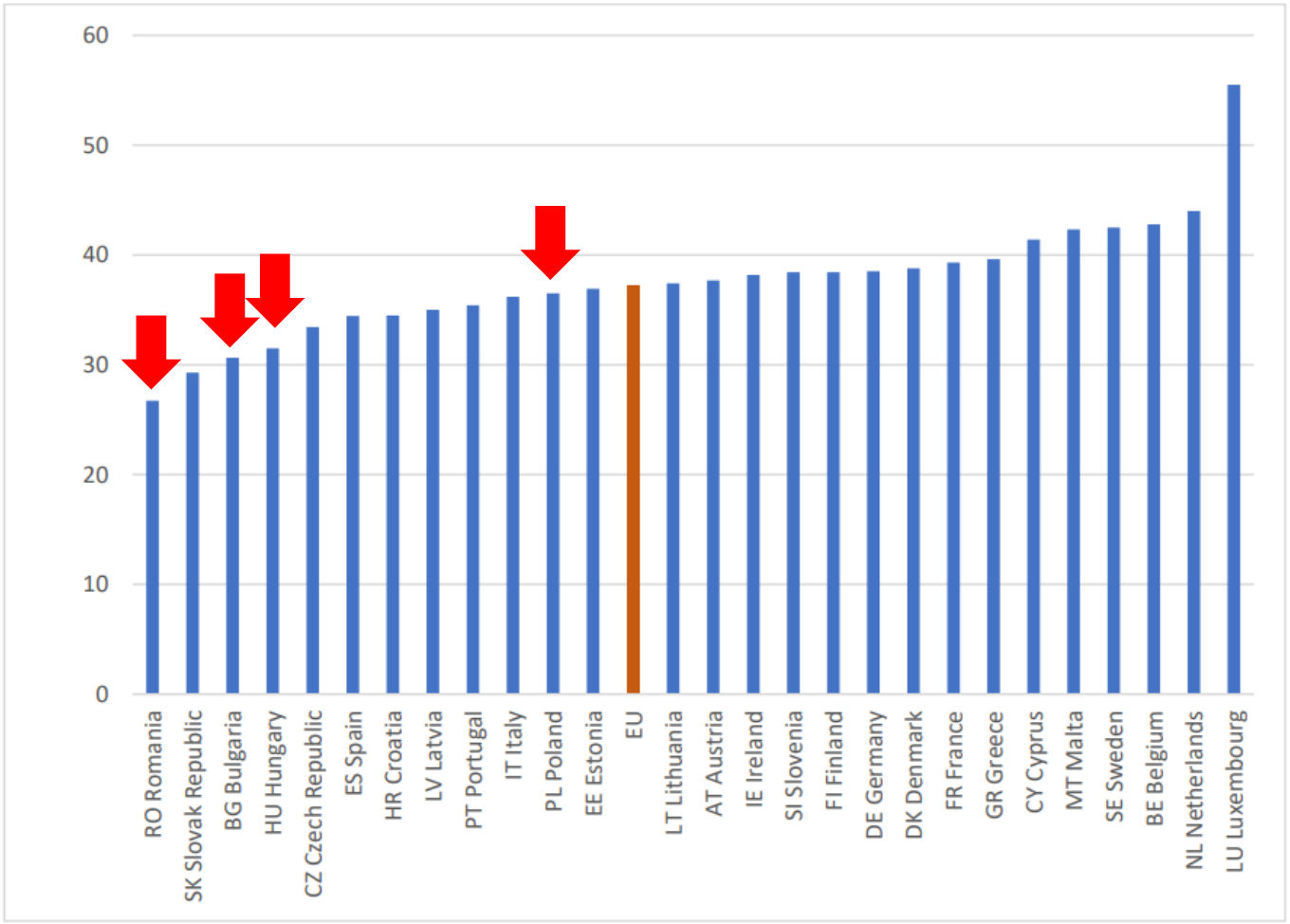
Reimbursement of employee's expenses if work is performed from home

LOWER INCIDENCE IN CEE:
EMPLOYEES WORKING FROM HOME DURING COVID-CRISIS, %



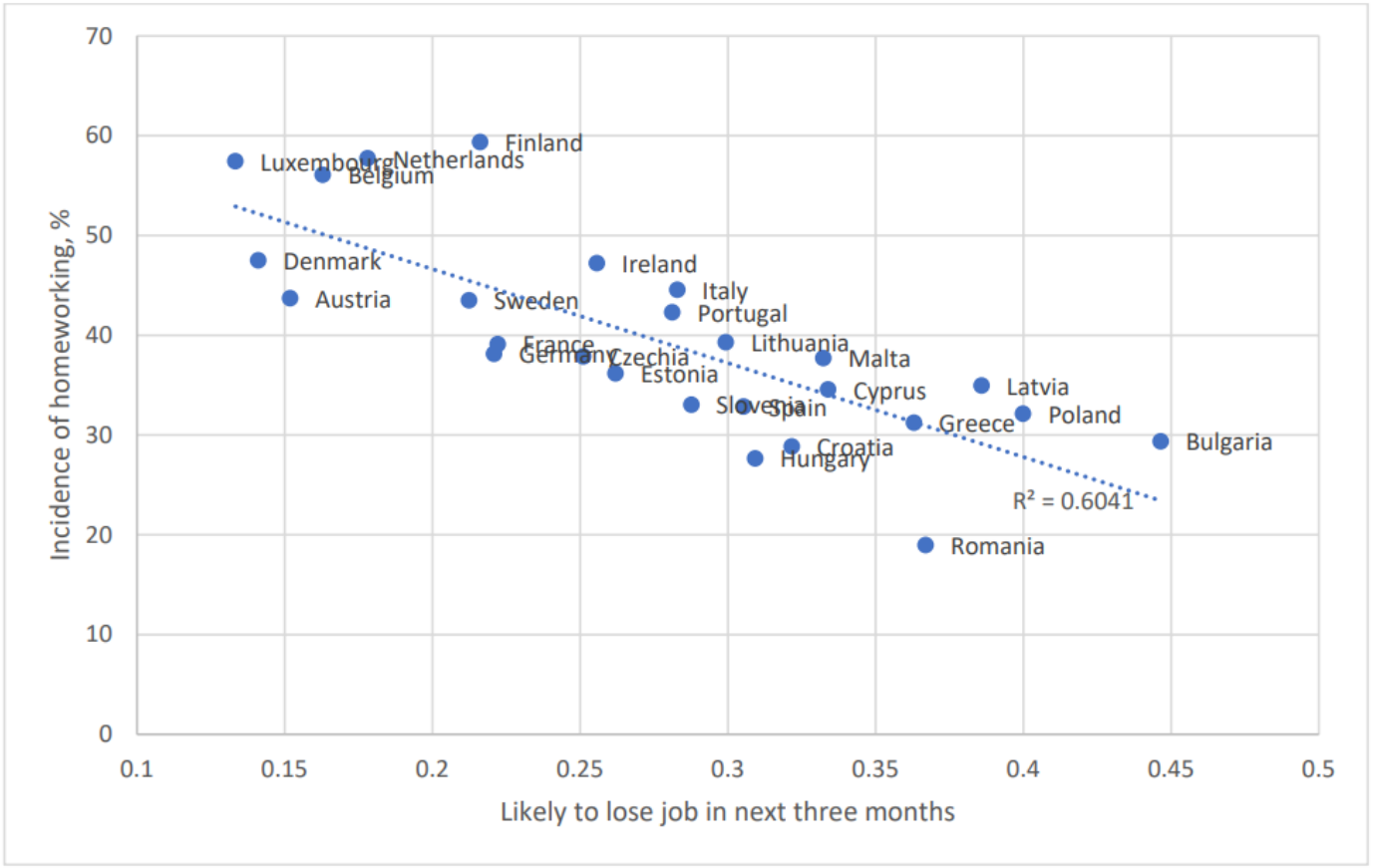
Source: *EF COVID survey. Note: no data for Slovenia.*

SHARE OF TELEWORKABLE EMPLOYMENT IN THE REGION LOWER THAN THE EU AVERAGE



Source: LFS, COVID group. Note: employees only

HIGHER INCIDENCE OF HOMEWORKING, LOWER SELF-REPORTED LIKELIHOOD OF JOB LOSS



Source: Eurofound COVID survey. Likely to lose job scaled 0-1 where 0 = “very unlikely to lose job in next three months” and 1 = “very likely”

TELEWORK REGULATION IN ROMANIA

In Romania, less than 20% of employees have worked from home since the pandemic outbreak according to an August 2020 survey.

- In Romania, two normative acts have recently been adopted to regulate teleworking
- Since November 9, private and public employers having more than 50 employees are obliged to implement teleworking... where possible
  - If employees cannot fulfil their duties by telework or working from home, companies with more than 50 employees must organize their employees' work schedules, so that they are divided into groups that start and finish work at least one hour apart.
- Legislation now allows employers to reimburse expenses (Internet, electricity)
  - Some employees had to update their Internet subscriptions
  - The issue is not regulated by collective agreements and must be negotiated individually
- **Energy sector union proposals** to improve working conditions for employees in teleworking:
  - Coaching and personal training on how to deal with stress
  - Training on career development
  - Training on new online management skills
  - The employers have responded negatively to these proposals due to **the reduction of training budgets**

IS TELEWORK GENERATING SAVINGS FOR COMPANIES? STUDIES SHOW DIVERGING RESULTS: GAINS VS. LOSSES IN PRODUCTIVITY

Increase in the quantity of work

Increase of hourly productivity

Acceleration of digitalization

Lower wages accepted in exchenge of telework (flexibility)

Reduction of work spaces

Redirecting savings towards productive investments (training, equipment)

Lower recrutement costs (lower turnover)

Very variable productivity gains

No impact on productivity

Productivity losses

Lack of face-to-face communication for complex and urgent matters

Lack of professional exchanges limiting knowledge sharing

Negative effects on non teleworkers: lower organisation, motivation

Obligation to telework

Many parameters influence the impact of telework on productivity :

(i) The structure of telework: tools, trainings of workers and managers;

(ii) The work organization in the company and management type: workers' authonomy, valuing results vs. valuing presence, adaptation capacity of the management;

(iii) The characteristics of the jobs: interdependence with other tasks, creativity, authonomy.

Source: Cyprien Batut, Youri Tabet, dans Trésor Eco n°270, novembre 2020, publié par la Direction Générale du Trésor français

A LONG TERM TREND: REDUCTION OF OFFICE FOOTPRINT. BUT WHAT ABOUT WORKERS' REACTION?

- **Renault France:** discussing the possibility of implementing shared offices, especially for R&D and support functions
- **PSA France:** the project **New Era of Agility** launched in May 2020 in order to normalize telework to 70% of the time
  - **A flex office concept: open space an reduced footprint**
  - **Objective: -30% office space by 2021/22 (compared to a previous target of -14%)**

  - Before the crisis, only 7% of workers took the 3 telework days to which they had the right
  - In a survey, 56% of union members oppose the massive telework plan
  - Workers fear the loss of social links (90%), breaking management links (50%) and induced costs (50%)
  - On the other hand, positive effects: time gains, financial gains, better concentration, better life-work balance
  - 58% of workers fear that their work will be transferred to a low-cost country or externalized

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