

MANAGEMENT REPORT
ON THE ECONOMIC STUDY OF SPECIAL EMPLOYMENT OF DISABLED PEOPLE IN
THE EUROPEAN UNION
THE EUROPEAN GROUP-IPWH SECRETARIAT
August 2001

This report has been extracted and summarised from the Report prepared by Lei Delsen, University of Nijmegen, The Netherlands; on the joint study undertaken by the EUROPEAN Group - IPWH and the University of Nijmegen with co-funding from the European Commission. For further information, reference should be made to Lei Delsen's report.

1. INTRODUCTION:

General Background:

People with disabilities constitute a very heterogeneous group, recognised by the European Commission (2000) in its communication **Towards a Barrier Free Europe for People with Disabilities**, as being one of the most disadvantaged sections of society. This is primarily due to lack of employment opportunities for people with disabilities whose productive role in society continues to be underestimated (EUROPEAN GROUP-IPWH, 1999).

The economic image of sheltered workshops often stated in the literature (See e.g. KPMG, 1999) is that they are in labour intensive industries, less productive and less profitable and largely different from commercial enterprises. The duality of focus of special organised companies -supporting disabled people and operating a commercial viable business - is difficult to balance.

The European Union dimension:

In the **Treaty of Amsterdam** an article is included on the general non-discrimination covering people with disabilities and other disadvantaged group. It is of major importance for the promotion of equal rights for people with disabilities. The **Employment Policy guidelines** of the European Commission (EC, 1999) for the development of Member States' National Action Plans, are built on four pillars:

- i.) **Improving employability;**
- ii.) **Encouraging entrepreneurship;**
- iii.) **Increasing adaptability;**
- iv.) **Promoting equal opportunities for women and men.**

Of the four Pillars, **Employability** is the most important; referring explicitly to the employment of disabled people, in guideline 9. A key feature of the Guide Lines is the inclusion and integration of disabled people within mainstream labour markets. Within the national social security systems of the Member States of the European Union (EU) there has been a shift from the principle of benefit towards the employment (Van Vugt et al., 2000). In Pillar No. 3, the European Commission considers the promotion of **Adaptability** in

businesses and for their employees, i.e. the modernisation of the organisation of work essential in order to improve the productivity of European firms, the quality of working life and the employability of the work force. Most member countries regarded qualifications as a key factor in the sustainable occupational integration of people with disabilities (Council of Europe, 2000). Vocational training and education was therefore seen as an important component.

The EUROPEAN Group-IPWH

The EUROPEAN GROUP-IPWH is a non-governmental organisation representing the majority of specially organised employers in the European Union; who employ approximately 400,000 disabled people. Related to the reintegration of people with disabilities into the labour market EUROPEAN GROUP-IPWH (1999) proposed a three-step model:

- i.) Work in the regular labour market on equal terms with others;**
- ii.) Economic incentives and support for employers of people with disabilities;**
- iii.) Companies that provide specially organised workplaces for people with disabilities.**

Step 1 is related to the Pillar No. 1 (improving employability) and No. 4 (equal opportunities) of the employment guidelines of the European Commission. Development of abilities to work, i.e. training and education are of importance here.

Step 2 refers to forms of wage subsidies and tax reductions in order to compensate for the additional costs incurred.

Step 3 refers to the creation of paid jobs in its own workplaces (sheltered employment) or with other employers (supported employment) for people with disabilities; who would otherwise not be employed. Employees in Sheltered employment should be prepared to make a transition to open employment.

Such specially organised employers generally operate on the same commercial terms as other companies in the business community and the work is based on the production of goods and services in demand in the market place.

Aims and Objectives of the Study:

The major aim of this economic study of specially organised employers within the European Community, was to:

- contribute to the improvement and the up-dating of current understanding of the sheltered employment sector; and
- achieve recognition as an important economic sector within Europe; by looking at:
 - developments in their business activities;
 - organisational characteristics;
 - personnel and employees;
 - supported employment, and transition rates;

together with other non-financial and financial criteria.

Background to the Economic Study of Specially Organised Employers operating within

the Sheltered Employment sector within the European Community:

The Study was expected to:

- taking into account that there were a large number of special organised companies and that many of these were active in different sectors, the study would need to be general.
- allow within the analysis for the changing role of special organised companies in the integration of disabled people in the labour market.
- relate the changes in trends in the sheltered employment sector within the wider economy.

It was anticipated that the information collected would demonstrate the effectiveness of factories, industrial units and workshops and possibly identify deficiencies and problems in business management, which may be hindering the goals of the employment strategies. The survey sought to gather data at the unit or establishment level to improve and complement the socio-economic knowledge base being used in the ongoing assessment efforts of EU policy, in particular in regard to Pillar No. 3.

The Breadth of the Study:

It was intended to that the Study should cover twelve member states, through its EUROPEAN GROUP-IPWH members:

- Austria
- Belgium
- **Finland**
- France
- Germany
- Ireland
- Italy
- Netherlands
- Portugal
- Spain
- Sweden
- United Kingdom

Not having representation in some countries, EUROPEAN GROUP-IPWH members and the Secretariat used their contacts with organisations in Denmark, Italy and Greece to increase coverage to 14 countries.

2. IMPLEMENTATION:

Data Collection:

The original target was to obtain data through the collection of 120 to 180 completed questionnaires. Though this number does not allow a representative sampling, the absolute number of completed questionnaires -- 10 to 15 per country - would have given a good representation of the trends within the national systems. National representatives were asked to distribute the 10-15 questionnaire forms through their national member organisations, i.e. the separate special organised companies in such a way that the response would be typical, not only from the point of view of sector of activity, but also related to establishment size and location. The coverage, distribution and stratification of the questionnaires were based on relative macro data within each country. In relation to the distribution of the questionnaires within each country, the research team of the University of Nijmegen co-operated with the national organisations.

Implementation:

Questionnaires were distributed to organisations within as was originally planned. 87 Responses were received from 13 of the EU Countries, with Germany not being able to participate in the Study. Five participating countries, each returned between 10 to 15 completed questionnaires; however for half of the participating countries 5 or less completed forms were returned. Many of the completed forms returned did not have all the questions answered nor was historical information always completed. The reduced number of questionnaires received and the lack of completing all the questions complicated the analysis making it difficult to provide statistical conclusions; nor allowing for inter-country comparisons and drawing hard conclusions. This report therefore has presented results based on either in the form of simple counts of responses or cross tabulation related to a selection of qualitative and quantitative data.

3. RESULTS OF THE SURVEY

3.1 Characteristics Of Establishments:

Purpose:

The main formal aim and most important purpose of industrial units and workshops within the Sheltered Employment sector in most countries; was to provide work to those disabled people who were not able to access or sustain work in the mainstream employment market. The second most important purpose was of a social nature: to provide personal and social assistance to improve the work capacity.

Transition to the mainstream employment market although mentioned in most member state's legislation as being the second most important goal was identified from the responses as being the third most important.

Location:

85% of industrial units and workshops within the Sheltered Employment sector were located in urban areas. This geographical distribution was anticipated both for demand and supply side reasons and demonstrated that:

- The business sector in which sheltered workshops were active were mainly manufacturing and services.

- The absolute number of disabled people employed was higher in these areas, i.e. the supply of disabled persons and hence the demand for sheltered jobs was higher in urban areas;
- Transport and access means are readily available in urban areas.

Ownership:

Industrial units and workshops within the Sheltered Employment sector can be initiated, set up, and run by private or by public institutions. For instance, in Belgium and Spain many industrial units and workshops were operated by private organisations; in the Netherlands, Sweden they were operated mainly by public organisations, while other countries like Portugal, Ireland and the United Kingdom show a mixed picture. The majority of the establishments were totally or partially owned by a domestic company/institution. In Spain, some establishments were also owned by an association or confederation or in the case of Ireland, by an enterprise.

Employees with Disabilities:

Table 3.5 shows that clearly the most important target group - for more than three quarters of the establishment - were disabled people with impairments of physical, mental or psychological origin, followed by people with long term unemployment including those people with socio-medical situations (19%). Responses varied and differed between the three years so conclusions about trends covering disabled employees could not be drawn.

Size:

The research indicated that most establishments were of small and medium size organisations. Empirical research has shown that small and medium size firms are almost always underrepresented and larger organisations, overrepresented. Differences in the share of SMEs between Member States can be explained from differences in one-persons business or self-employed without employees and is also very much related to fiscal and legal differences, and differences in the structure of the economic activity.

Management Competency:

The general belief that staff operating in the Sheltered Employment sector lack commercial skills (marketing, sales, production and financial management) was not confirmed by the respondents. Two thirds of the respondents indicated that related to commercial skills in 1999 the staff of their establishments was sufficiently qualified with another 17% indicating that staff employed were fully qualified. On the other hand, it was recognised by almost one of every five respondents indicated that insufficient commercial knowledge and experience may cause problems in the changing environment which is moving towards a more market oriented approach. A key feature identified was that there is hardly any difference in the appraised commercial skill base, among staff between public, private or voluntary organisations.

Adaptability:

Increased consumer demands for high quality products and services and growing domestic, intra-European and international competition demands more flexible organisation structures to survive in the competitive race and secure and increase market share. The EC considers the promotion of adaptability in business and their employees, i.e. the modernisation of the organisation of work essential in order to improve the productivity of European firms, the quality of working life and the employability of the work force.

One approach considered by some respondents was the cost rationalisation by workforce reduction (downsizing). However, stiff product market competition raises the demand for increasing innovation. Analysis of responses shows that within many of the special organised companies, over the past five years, a large number of management initiatives have been taken. Many of these management initiatives were stimulated by developments in competition; notably in the fields of new information technology, job rotation and automation initiatives. Within special organised companies the new initiatives were similar to those in mainstream enterprises (See European Foundation, 1997; OECD, 1999).

The flattening of management structure as a management initiative based on EPOC data taken over the past three years before 1996 show that 27% of the workplaces reported similar measures. The highest figures of such initiatives in the area of flattening management structures were found in the Netherlands, Sweden and the United Kingdom. Initiatives in the field of working time and place flexibility allow to take into account both employee and employer interests (Pillar 3, Adaptability). An average of 11% of the workplaces reported the application of job rotation with Sweden and Denmark clearly have the highest figures. The process of subcontracting to external enterprises was a growing initiative, found mainly in the industrial units and workshops operated by private sector. In some cases, initiatives had been applied involving complete change in trade linked with subcontracting, notably in the UK. Moving into service provision by operating supported employment processes was being tested in UK; whilst in Spain the operation of enclaves were being introduced.

3.2 Characteristics Of Personnel:

The characteristics of the personnel employed by the special organised companies was reviewed, addressing distribution by degree of work output, by impairments caused by disability, function level, and by age. Finally the ratio between production and supervisory personnel and the labour contract structure were established.

Employment of severely disabled people:

Earlier research showed that special organised companies fail to employ severely disabled people (See Samoy and Waterplas, 1992; Delsen, 1996), however, the Study indicates that this was no longer the situation. The data shows that the disabled persons with a work output between 20 to 39% was the largest group among the employees; with a relative large group achieving an output of over 80%. The Study confirms the ECOTEC (2000) conclusion that sheltered employment sector continues to be a major employer of disabled individuals, and that the trend was increasingly in the direction of provision for individuals with the most severe disabilities. However, further research was needed, because of the limited

data available.

Comparison and Distribution of Disabled People:

The lack of data received relating to the question of the degree of individual work ability and output also illustrated that there was a lack of research, nationally together with comparative statistics available within the European Community¹. The lack of such data not being readily available at industrial unit and workshop level, was not expected by the Researchers. In theory, information on the seriousness of the impairments of the individual disabled person and the work output achieved were expected to be available. Both criteria are used for the basis for selection for sheltered employment. For re-integration into employment, the emphasis should be on the abilities and not the limitations of the individual. The establishment of a standardised information system in the EU was strongly recommended. Insufficient data prevents any trend analysis. Distribution by impairment has an impact on productivity and may be related to the sector of activity or the purpose of industrial units and/or workshops. Earlier research by Samoy and Waterplas (1992) showed that the largest proportion - two thirds of employees of special organised companies in the EU were those with mental related impairments. In France and Portugal, the focus, notably, is on people with a mental related impairments. The research also shows the over representation of people with a mental and psychological impairments relative to their population. However, in 1999 people with physical and sensory impairments were also equally large group. This shift in type of impairment may be related to developments in and the application of new technologies (ICT). A further large category were people who were long term un-employed and social needs. However, more research is needed on this topic to draw a final conclusion.

Skills Levels:

Unskilled activities, with very simple instructions that needed no or little insight and communication were found to be the most dominant function level in the industrial units and workshops. The reported data for 1999 also indicated that Class 3 - skilled professions with rather intricate work that needs insight, communication and theoretical knowledge - was also (becoming) an important function level in sheltered employment sector. There were indications of the development of a duality in the population, within establishments and potentially linked to movement from manufacturing to services and the application of information and communication technology. Class 2 - semi-skilled and trained occupations with simple work and little intricate work that need limited insight and communication was the third most important function level.

Age Levels:

Unlike the distribution by sex, there was a difference in the age levels of the employees in sheltered employment sector and the total working age population. Comparison with the age

¹ Individual output is dependent on many factors which include the environment, participation, motivation, selection and training, work-aids and adjustments, rewards, financial resources etc. Linked to impairments which may be physical, mental or sensory; the provision of data relating to an individual, whether with a disability or not is unrealistic. The WHO ICFIDH-2 International Classification of Functioning, Disability and Health -Final Draft - Full Version; provides a framework for Profiling against a number of aspects and criteria, which crosses language barriers. It does not predict behaviours, cultural and resource requirements and comparisons.

level of employment in the EU in general; (See Paoli, 1997, p. 348) young people between 15-24 years of age (13%) those people 55 and over (10%) were under-represented in employment. The population of employed people in the sheltered employment sector was seen as being relatively young. The under-representation of those 55 years and over may be related to early retirement and pension policies. There were also indications of a relationship linked to the age of establishment of industrial unit and workshop. There was strong inter country differences with in Sweden, the employees aged 45 and over were the largest group.

Distribution between Management & Supervisory and Production/Service Employment:

Nine out of ten of the employees with supervisory and management responsibilities were non-disabled whilst nine out of ten persons involved in production were employees with disabilities. In order to increase productivity and as a result of the introduction of ICT there may be a trend towards the employment of more non-disabled production personnel. Also offering employment to long-term unemployed in industrial units and workshops within the Sheltered Employment sector may cause a shift towards a greater number of non-disabled production personnel. The Study indicated that in the second half of the 1990s the trend was going in this direction.

Full and part time employment:

The majority of the employees with disabilities in industrial units and workshops in the sheltered employment sector were employed on full-time contracts of 35 and more hours per week. However, a considerable proportion of the employees work on a part-time contracts of 20 to 35 hours per week. The part-time employment rate in special organised companies was higher than in general employment (17-18% in the EU). For the majority of the disabled employees, part-time work is the only way to take part in the labour process. Moreover, part-time work allows those who have not had work experience or who have been out of work for a considerable time to become acquainted with the world of work, and possibly eventually move on to a full-time job (See Delsen, 1996).

3.3 Economic And Financial Characteristics:

Market Share:

The majority - 70% of the establishments reported a market share of 40% or less. Although this proportion was relatively constant, the reported market shares clearly show a positive development. The number of establishments with a relatively small market share of 5% or less were decreasing while those reporting a relatively high market share (81 to 100%) were increasing. It was important to note that many were monopolist, i.e. reported a 100% market share. These developments indicating an improving market position related to the main products or services.

Investments:

The improving position of the establishments could also be shown by the value of net investments. The mean value of the net investments increased from 18.3 million Euro in 1995, and 108.7 million Euro in 1997 to 161.5 million Euro in 1999. Based on the efficiency of

these investments, the competitive position of the industrial units and workshops has strengthened. Based on investments and management initiatives, it may be concluded that industrial units and workshops within the sheltered employment sector workshops in Europe were forward looking.

Employment Levels:

The economic position of the sheltered employment workshops can also be derived from the employment outlook. The expected development in 2000 and 2001 points were favourable. Only some 12% of the respondents expect a (strong) decrease in employment, while almost half expected a (strong) increase in employment. In 40% of the establishment employment will remain about constant in 2000 and 2001. These opinions may be strongly influenced by the business cycle situation at the time of completing the questionnaires. The employment outlook was most favourable in the private sheltered employment workshops. Half of the private workshops reported an increase in employment and over 10% indicated a strong increase. For the public industrial units and workshops these percentages were only 20% and 5%. Some 15% of the public establishments expected a decrease in employment. These differences relate to the sectoral distribution of public and private industrial units and workshops.

Business Trends:

Responses received indicated that the most favourable developments in employment in 2000 and 2001 were in the service sector. This was in line with the growth of the service sector employment in general in the EU as well as the reported applied updated techniques in this sector. Agriculture (NACE 0) and certainly Manufacturing (NACE 2-4) show a mixed picture. Several establishments in the agricultural and manufacturing sectors expect a decrease in employment.

Indirect Taxes & Subsidies:

Almost two thirds of the establishments were not exempt from paying social security payments. The division by country shows that there was a North-South divide in the EU. In the Northern European countries, the sheltered employment sector was treated similarly to mainstream enterprises related to social security payments. In the Southern European countries half were exempted from paying social security premiums, while almost all public sheltered workshops had to pay premiums. Value added tax (VAT) was paid by over 80% of the establishments; Payment of VAT may be related to the product or service produced. It may also be related to the kind of sheltered establishment; i.e. its ownership.

Financial Support:

Almost two thirds (48) of the sheltered employment workshop are subsidised by national governments; 30 respondents reported to receiving subsidies from regional governments and 17 reported subsidies from local government.

Competition:

It was reported that there were hardly any differences in the level of competition, i.e. the competitive environment between private and public enterprises. This may be a threat for

sheltered establishments; taking into account their dual focus. However, as from previous sections, increasing competition was also a trigger for changes in management and the organisation of sheltered establishments presenting a challenge to the sheltered employment sector.

Ratio Analysis:

A higher ratio than the general economy as a whole was expected, taking into account the stated (social) purpose of the sheltered employment sector. The reported growing capital intensity was potentially a source for increase of the efficiency of the production process and hence the cost effectiveness of the industrial units and workshops. The debt ratio was a measure for solvency and was calculated by debts divided by assets. Solvency was the extent to which specially organised employers would be able to pay their debts in the event of liquidation. Assets referred to economic resources expected to produce future cash inflows or reduce future cash outflows. The debt ratio (0.5) was relatively high, compared to private enterprises in general (0.3). From the solvency point of view this was a favourable position. However, from the efficiency point of view it may be preferable to attract less expensive money from outside the workshops.

Return on Assets:

Return on assets, return in investment (ROI) was calculated on profit before taxes plus interest, divided by average assets. Over half of the establishments reported profits, and a little less than half reported losses. The returns on assets of the sheltered workshops were relatively low. However, one may question whether for sheltered employment establishments this ratio should be equal to that of the private sector in general, taking into account their dual focus?

4. CONCLUSIONS & RECOMENDATIONS:

The major aim of the present small scale comparative economic study was to contribute to the improvement of the performance of the industrial units and workshops in the sheltered employment sector in the European Union. It was not intended to achieve the degree of accuracy of national studies.

Comparative research in the European Union has to deal with the practical problem of differences in definitions between member states and the language, i.e. the translation and cultural problem. These practical problems hampered the gathering of comparative data. The low response rate as well as the high level of incomplete data in the returned forms related to (historical) employment, economic and financial data of the establishment has prevented trend and in-depth analysis to be undertaken.

From the Study, it can be concluded that factories, industrial units and workshops within the Sheltered Employment Sector:

- have had a dual function; the provision of work for disabled people balanced with the operation of commercial operations and services;

- operate and compete in local, national and European Union markets;
- the combined value and contribution of this part of the Sheltered Employment Sector within the economic market was substantial linked with the employment of approximately 1 million disabled people;
- whilst in many cases operating in mature markets, similar levels of innovation and application of progressive techniques have been demonstrated as other enterprises within the European market;
- **Adaptability**, using ICT, flexible management practices was demonstrated for obtaining market share within highly competitive European Markets, in a number of sectors;
- The focus on training and development of employees and ensuring levels of competence to participate in a wide range of activities and services was demonstrated to be at higher levels than many enterprises within the European market;
- **Employment** of disabled people was growing with the increasing population of people with mental disabilities and other substantial impairments;
- many specialised employment organisations were extending their operations to the provision of services to facilitate access and sustain employment for disabled people within the European labour markets;
- an increasing development was the provision of sub-contracting services to enterprises and administrations outside the Sheltered Employment Sector together with support services assisting enterprises to employ disabled people.

It is recommended that the European Group-IPWH:

- Reinforce the focus on the needs of the individual with disabilities and facilitate their empowerment to access and sustain employment within the European Union market place through specially organised employers providing appropriate support services, opportunity to obtain work experience and disciplines and training to develop personal and work skills;
- extend the employee base to maximise the application, experience and skills of specially organised employers' operations and services to long term unemployed people and people who are included within other disadvantaged groups;
- and specially organised employers should develop a profile framework based on economic criteria for demonstrating and promoting the importance and contribution of the Sheltered Employment Sector to the EU. Such a profile could provide local, regional and national economic data comparisons within the EU;
- in conjunction with the European Commission, ECOSTAT and others should develop a statistical profile document based on WHO ICIDH2 Final Draft Classifications 2001 (similar to the Disability Assessment Schedule currently being trialled by the WHO); which would provide a comparative statistics on the employment of disabled people within Europe;
- should consider the development of quality internal and external benchmarking linked to World Class practices, covering all operations and services.

The Study identified the following areas for further research:

- the geographical distribution of people with disabilities to improve the matching process in the labour market.
- the comparison of adaptability and future potential between private and public specially organised employers operating within the Sheltered Employment Sector;
- Longitudinal studies of disabled people progressing from unemployment, through sheltered employment to the main labour markets and the levels of sustainability;
- to establish the role of semi-sheltered workshops in contributing to a higher transition rate;
- to consider the ECOTEC (2000) conclusion that there was an increasing trend increasingly in the direction of provision for individuals with the most severe disabilities;
- the development of a duality in the population of factories, industrial units and workshops within the Sheltered Employment Sector, together with the movement from manufacturing to services and the application of information and communication technology;
- the trend for provision of employment to long-term unemployed people which may cause a shift toward more non-disabled production personnel;
- the current ratio as well as the quick ratio for the sheltered employment workshops were very high compared with the wider economy. From the liquidity point of view this was favourable. However, from the efficiency point of view this may be unfavourable;
- factories, industrial units and workshops within the Sheltered Employment Sector were relatively well prepared and adapted to increasing competitive pressure. Further data should be sought relating to their capability for restructuring their operating hours, working time management, structure of the employment contracts and the employment conditions.

ANNEX - MEMBERS OF STEERING COMMITTEE AND NATIONAL EXPERTS PARTICIPATING IN THE EUROPEAN GROUP-IPWH ECONOMIC STUDY 2000

National Experts:

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