

# Organizational transformation in the EU context



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In the light of the current fast-changing economic and social context of Europe, in particular after the 2009 Eurozone crisis, a trend of organizational transformation is underway. This crisis has not only affected the EU member states' economic growth, it has also exposed other fundamental problems at both the national and EU level.

Being exposed to their structural weaknesses, numerous European countries started to develop recovery reforms and implement rigorous measures to keep their budgets under control—ultimately aimed at gaining cost savings and strengthening their organizational performance.

Additionally, EU institutions started to face organizational challenges while providing support to the member states with more impacts and cost-saving objectives on their functioning budget. In turn, they responded to the crisis by aligning their strategic objectives to those of the member states in order to effectively deal with the national issues.

Putting this in practice, in 2010 the European Commission launched the “Europe 2020 Strategy”<sup>1</sup> for EU institutions—a ten-year job and growth strategy—which contains conditions for smart, sustainable, and inclusive growth. Up to 2020, EU institutions will contribute toward this goal through a number of strategic objectives, which may require budgetary and organizational efforts by EU administrations and staff members.

**So, how do EU institutions cope with today's crisis challenges on budget and organizational management? Let's take a look at the three main streams:**

01. Achieving cost savings in administrative expenditure
02. Achieving efficiency gains through effective human resource management
03. Strengthening the sustained organizational performance through efficient processes ➤

<sup>1</sup> More details on the Europe 2020 Strategy can be found at [http://ec.europa.eu/europe2020/europe-2020-in-a-nutshell/index\\_en.htm](http://ec.europa.eu/europe2020/europe-2020-in-a-nutshell/index_en.htm)

## 01. Achieving cost savings in administrative expenditure

First and foremost, the EU budget is set out through the Multiannual Financial Framework (MFF), both born in times of crisis. The current MFF framework runs from 2014 to 2020 and includes the activities to be financed according to long-term spending priorities and limits.

During crisis times, two clear trends are noted within the institutions publications. For one part, institutions are urged to make efficiency gains and savings in the administrative expenditure. For the other part, they face additional tasks to manage the effects of the crisis. The European Commission therefore argues that staff should do better by working harder and by identifying those areas for more efficiency.<sup>2</sup>

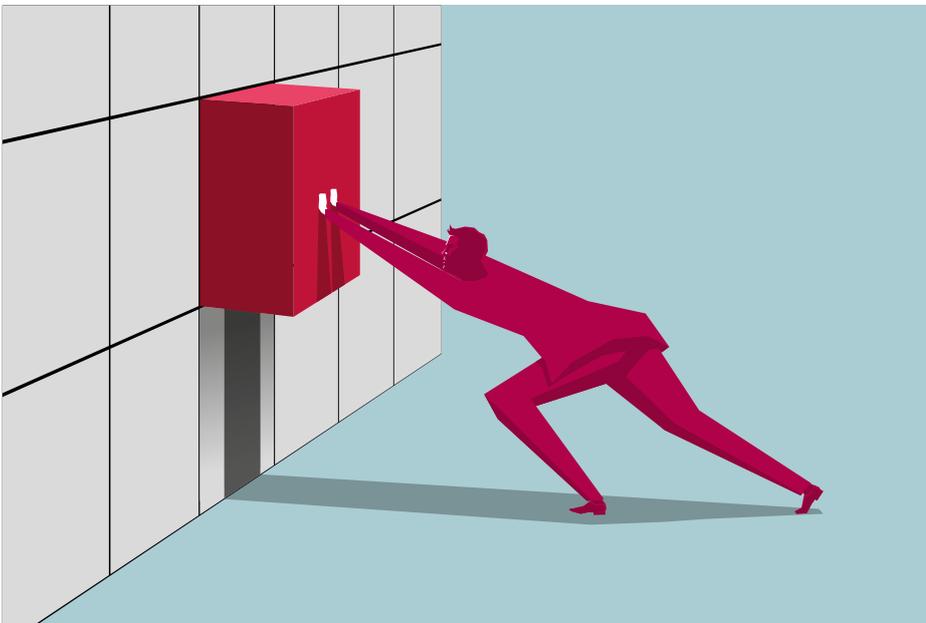
Consequently, the European Commission came forward over the past years with reforms intended to keep administrative costs under control. These reforms should generate more than €1 billion savings by 2020.

In that perspective, the European Commission voluntarily froze its administrative expenditure increases in 2012 and 2014 due to the economic and financial crisis. This was achieved by significantly reducing expenditure linked to buildings, information and communication technology, publications, studies, missions, conferences, and meetings.<sup>3</sup>

Through the mindset to maximize value for money, in 2011 the European Commission presented its austerity policy package, trying to save €1 billion by 2020 in administrative costs. For that reason, they intended to reduce their staff by one percent in 2013 with approximate savings of €20 million, given that the expenditure for staff remuneration accounts for more than two thirds of the commission administrative expenditure.<sup>4</sup> For 2015, the European Commission made a particular effort in containing all non-salary related expenditure below the level of the 2014 budget (-1.0 percent), by reducing other administrative expenditure related to non-contractual obligations.<sup>5</sup>

Official EU publications indicate that the current operating and administrative costs within EU institutions are indeed quite high; potentially being a sign of EU's weaker control over its member states compared to the strong level of power EU administrations possess. For 2016, the MFF indicates that the EU's administrative expenses account for about six percent of the total EU budget, with salaries accounting for around half of that six percent. The remaining 94 percent of the EU total budget is spent on EU citizens, farmers, businesses, regions, and cities.

In addition, it has been noted that out of the €155 billion in the EU's budget payments, official administrative expenditure amounts to €8 billion (five percent of the budget).<sup>6</sup> Further cost savings are planned to be generated as part of the MFF.



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2 European Commission (23 January 2012). "Commission calls for savings in EU Institutions." Available at: [http://europa.eu/rapid/press-release\\_IP-12-35\\_en.htm?locale=en](http://europa.eu/rapid/press-release_IP-12-35_en.htm?locale=en)

3 European Commission (23 January 2012). "Commission calls for savings in EU Institutions." Available at: [http://europa.eu/rapid/press-release\\_IP-12-35\\_en.htm?locale=en](http://europa.eu/rapid/press-release_IP-12-35_en.htm?locale=en)

4 European Commission (June 2014). "Draft General Budget of the European Commission for the Financial Year 2015." Available at: [http://ec.europa.eu/budget/library/biblio/documents/2015/DB/DB2015\\_WDVI\\_en.pdf](http://ec.europa.eu/budget/library/biblio/documents/2015/DB/DB2015_WDVI_en.pdf)

5 European Commission (June 2014). "Draft General Budget of the European Commission for the Financial Year 2015." Available at: [http://ec.europa.eu/budget/library/biblio/documents/2015/DB/DB2015\\_WDVI\\_en.pdf](http://ec.europa.eu/budget/library/biblio/documents/2015/DB/DB2015_WDVI_en.pdf)

6 European Council (2016). "EU budget." Available at: <http://www.consilium.europa.eu/en/policies/eu-annual-budget/2016/>

## 02. Achieving efficiency gains through effective human resource management

### What is the impact of these administrative budget savings on the institutions' human resources?

Not only are the institutions increasingly required to do more with less resources (due to staff reductions), there is an emerging need to reform the human resource management to keep administrative costs under control and develop a more efficient organization.

*That being said: how do institutions find the right balance between savings and staff quality?*

After the budget request in 2012 and 2014 representing a freeze in nominal terms of their administrative expenditure, the European Commission conducted a zero growth policy with regards to its staff numbers in 2013. This has led to the assignment of new job responsibilities and priorities by redeploying existing staff and has asked for no extra staff beyond those needed in connection with the countries that have recently joined the EU. In 2014, they again thoroughly assessed their budget request for administrative appropriations for 2015, and set the objectives to reduce staffing levels by five percent over five years. To achieve this, they aim to delegate certain implementation tasks to executive agencies, reduce the number of its establishment plan posts by 1,45 percent, and redeploy a significant number of posts internally to meet new priorities (548 posts), which led to a total staff reduction in the commission of 1,54 percent.<sup>7</sup>

The commission has been encouraging all EU institutions and bodies to follow their rigorous approach when preparing the budget estimates, both with reference to staffing numbers and administrative expenditure.

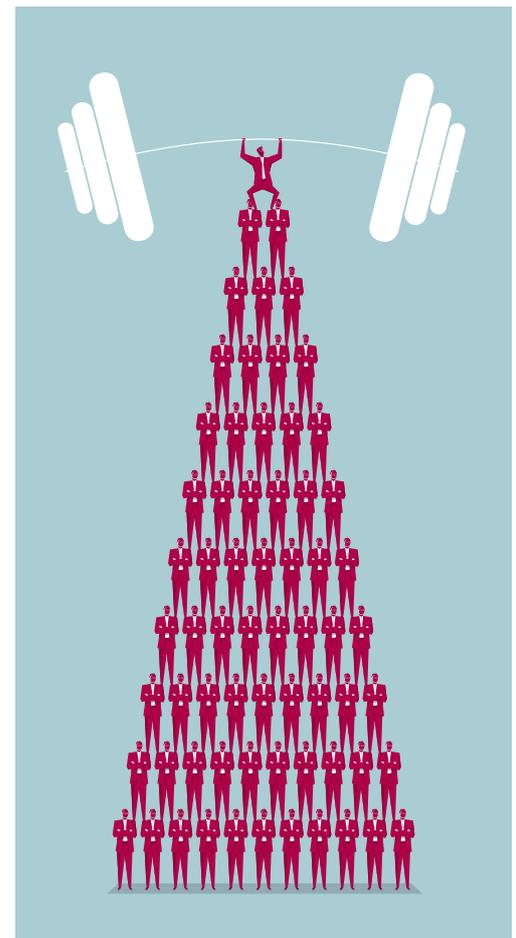
Following this example, the European Parliament is committed to reduce the number of posts by 197 between 2016 and 2019, which includes a target of 60 fewer jobs in 2017. In addition, and through combined efforts, the European Council, Parliament, and Commission will reduce the number of staff by five percent between 2013 and 2017.

Consequently, the majority of EU institutions recently undertook major reforms to provide savings in administrative expenditure while keeping a stable framework in terms of salary, career, and HR management. This includes:

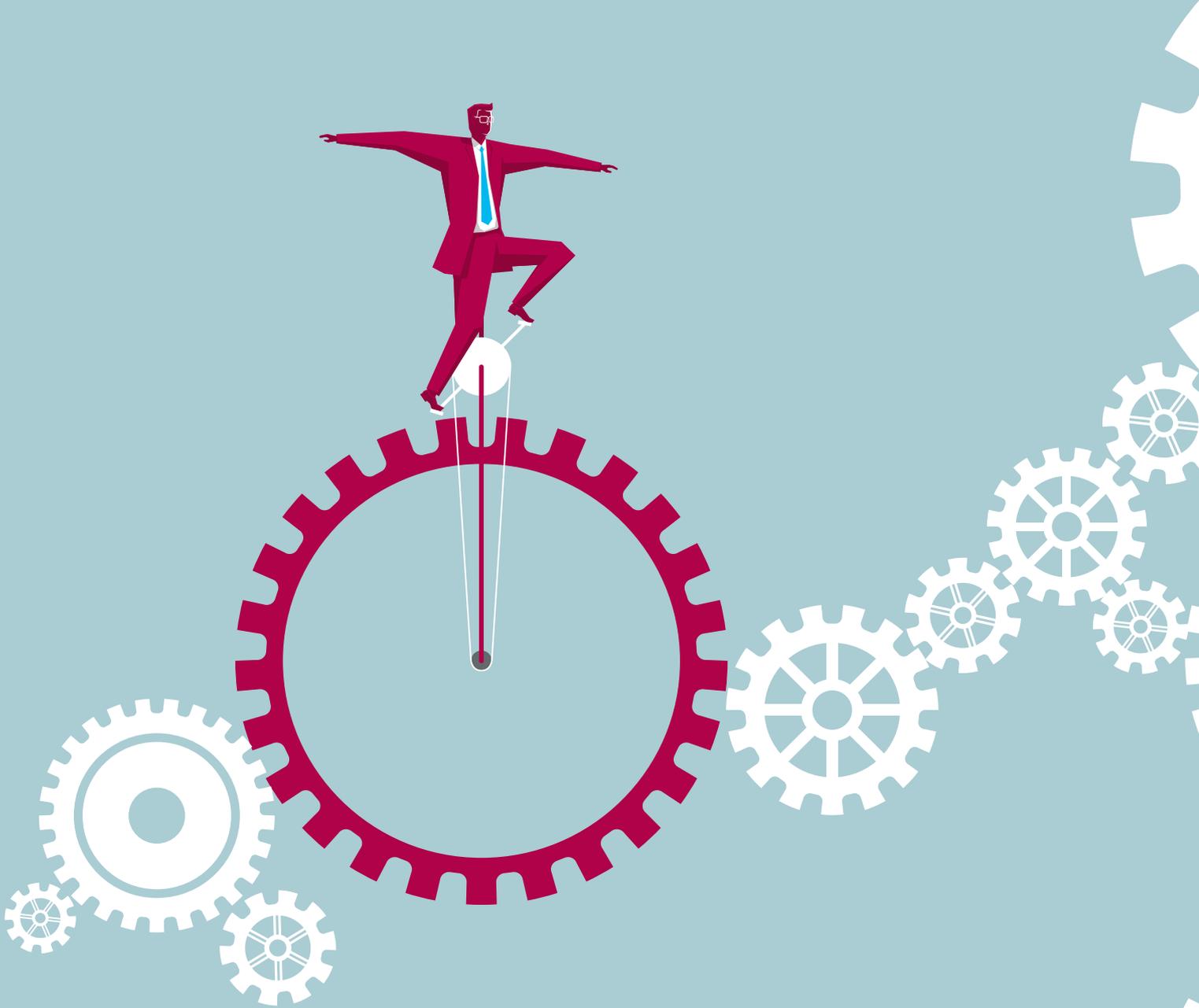
- Lower entry-level salaries
- Modernizing the career structure
- Establishing a contract agent category with lower salaries
- Raising the retirement age
- Improving the conciliation between professional and private life
- Reducing pension rights
- Increasing pension contributions
- Reducing expenditure for travel expenses of delegations and interpreting costs (the council)
- Increasing the standard working hours of EU staff up to 40 a week

As stated by the commission, the institutions' particular working conditions need to be kept in mind when analyzing the staff numbers and their deployments. To name just a few, the importance of the multi-site presence all over Europe and the world, the 23 working languages, and the unique inter-institutional setup should not be neglected. ➔

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### **Develop a high performance organization**

EU institutions aim to further build on a high performance organization. To achieve this, they should strengthen the sustained organizational performance by putting the right person in the right job at the right time, or termed differently, by allocating the right human resources for better alignment with the strategic priorities.

A new governance model that aims to create an organization where employees are:

- Inspired by the EU vision
- Encouraged to work at the very best of their ability
- Encouraged to exchange ideas
- Inspired to go beyond doing business-as-usual
- Able to solve complex issues in a collaborative environment
- Encouraged to innovate and propose new approaches

### **Focus on talent management**

Effective talent management requires EU institutions to focus on managerial excellence, the development of staff, their performance, and ultimately to focus on reinforcing their skills in order to gain efficiency, keeping in mind their expectations regarding their careers.

A new talent management strategy that:

- Focuses on managerial excellence
- Strengthens the performance of staff
- Meets employee expectations regarding careers
- Contributes to strengthening collaborative skills and knowledge transfer
- Attracts talents and millennials
- Keeps employee retention at a high level
- Offers skills and personal development activities
- Drives the organization's performance and sustainability

### **Develop an appraisal framework**

Most EU institutions are now developing a new appraisal framework, which enhances the vision of their employees' performance throughout the year. The importance given to this matter confirms that performance is one of their strategic priorities.

• A comprehensive appraisal framework that:

- Builds a feedback culture
- Focuses on employees' career plan and vision
- 360° appraisal framework
- Ensures promotions meet employees' performance and career vision
- Strengthens and promotes performance of staff
- Most importantly gives an accurate picture of employees' performance, strengths, and weaknesses

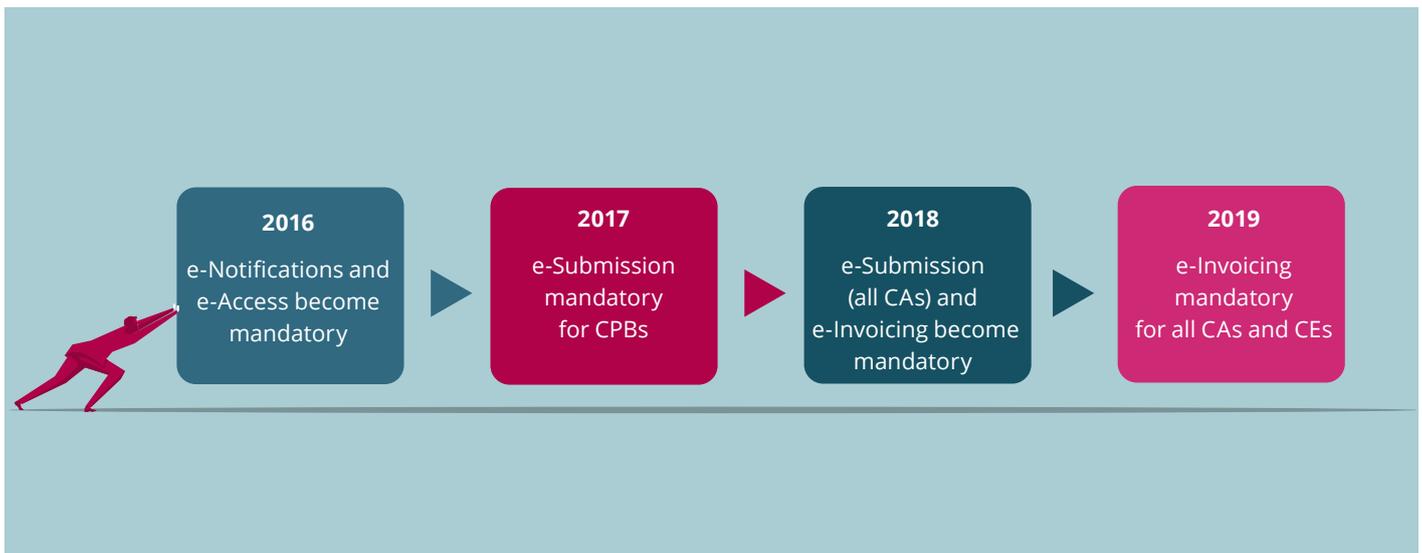
### 03. Strengthening the sustained organizational performance through efficient processes

Against the budget pressures and staff number stagnation, EU institutions face additional challenges similar to those of the member states' public and private institutions—implying the increase of the overall productivity and efficiency through

cutting administrative burden, improving synergies, and collaboration between public institutions.

One interesting example to be considered is public procurement. Critical to the European economic recovery, it represents approximately 14 percent of EU GDP with an annual value of nearly €2 trillion.

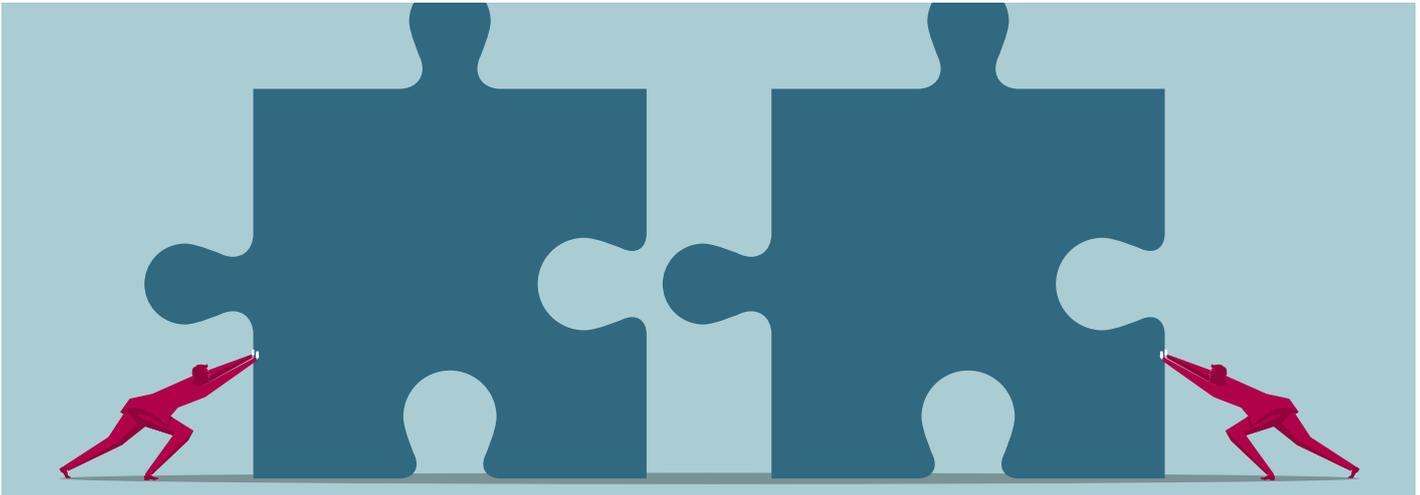
Demand aggregation through Central Purchasing Bodies (CPBs)  
Smart procurement of IT to enhance innovation in the public sector  
Electronic tools in public procurement “e-procurement”  
Public procurement of innovative solutions



Public procurement processes have much to learn from digitalization. The e-procurement integration into EU institution processes will introduce improvements that go beyond simply moving to electronic tools; it will rethink all the traditional procurement stages, integrate data-based approaches, and make procurement procedures more flexible and efficient.

On the member state level, more than half of the EU countries have established strategic documents related to e-procurement or plan to do so. Luxembourg, for instance, developed a central public procurement portal with the purpose to create an electronic one-stop-shop for public procurement, which centralizes calls for tenders, notices, and public procurement legislation online.

The EU's new rules for procurement are part of a bigger picture that aims to create a procurement European ecosystem, with less bureaucracy and higher efficiency, integrated in the Juncker Commission's priority of "A deeper and fairer single market."<sup>8</sup> To this extent many initiatives and efforts are putting digitalization of the procurement system at the heart of public reforms.



Ultimately, the e-procurement reform will reduce the administrative burden and the costs, allowing public budgets to be organized toward productive processes. In fact, authorities that have already made the transition to e-Procurement report savings between five percent and 20 percent.<sup>9</sup> Considering the size of the total procurement market in the EU, each five percent saved returns around €100 billion to the public budget.

Reporting processes are being disrupted as well; new document sharing tools are arising and replacing the previous reporting schemes. Many EU institutions are now using web portals and document sharing platforms to reduce the reporting efforts.

Digitalization introduced new concepts and process management methods, such as “Lean” management methods that seek to eliminate time-consuming bottlenecks and inefficient processes and focus on added-value activities.

Improving synergies between EU institutions and initiatives is an alternative way to address EU institutions’ efficiency issues, especially within EU investment funds, initiatives, and financial products.

Ensuring complementarity and synergy within investment bodies is crucial not only to amplify investments and their impacts,<sup>10</sup> but more importantly to enable risk-sharing investments and encourage European funds to invest in high-risk and high-added-value projects.

In the long term, fostering synergies will not only bring more efficiency, it will ultimately lead to a positive impact on jobs, growth, and competitiveness across Europe’s diverse regions by giving a push to public/private cooperation, bringing more companies and regions into a harmonized economy.

One should not forget that, improving process efficiency is not the only challenge faced by EU organizations; since the pace of the economic and political change is accelerating, EU institutions should equally be able to adopt more agile ways of working, investing, spending, and budgeting in response to changing political agendas.

**Conclusion**

The climate of austerity since the economic recession has steered both member states and EU institutions toward an organizational transformation. To cope with the number of challenges, official publications indicate that EU institutions have started to take a more active part in shaping and enhancing their internal functioning, with the ultimate goal to achieve a more efficient human resource management, day-to-day operation, and cost-saving way of working. Achieving this has called for strict reforms and measures at the EU level over the past years. As a next step, to what extent can the EU further steer this transformation to adopt more agile ways of working to respond to the changing political agendas? ●

9 European Commission (20 November 2015). “New EU public procurement rules: less bureaucracy, higher efficiency.” Available at: [http://ec.europa.eu/growth/tools-databases/newsroom/cf/itemdetail.cfm?item\\_id=8562](http://ec.europa.eu/growth/tools-databases/newsroom/cf/itemdetail.cfm?item_id=8562)

10 Establishing Synergies between European Structural and Investment Funds, Horizon 2020 and other research, innovation and competitiveness-related Union programmes - 2014