



S/permanent/joint texts/post 2001/divers/orientations restructuring annex EN.doc

## **Joint seminars on corporate restructuring**

### **Description of cases presented**

#### **Summary**

Following on the first Commission consultation of the social partners on corporate restructuring, and as foreseen in the work programme for the social dialogue in 2003-2005, UNICE/UEAPME, CEEP and ETUC have organised joint seminars and examined 10 concrete cases of companies and regions faced with changes and restructuring.

The first case study presented concerned the fertiliser division of Norsk Hydro, Hydro Agri, which was faced in 2000 with an oversupplied European market for ammonia nitrate-based fertilisers. Capacity had to be reduced, closing eight plants in the UK, France, Sweden, Germany and the Netherlands.

The second case study presented concerned the biscuit production of Danone in Europe. Here also, the challenge was to deal with an overcapacity. The process involved specialising production sites, with the unique feature of interlinked national processes since some activities were moved from one country to another and vice versa.

The third case study presented concerned Marzotto, an Italian company, leader in the textile and clothing business. Faced with competition of extra European countries, the textile business in Europe has undergone restructuring keeping production of high added value in Italy and transferring the production of lower added value fabrics abroad.

The fourth case study presented concerned Deutsche Telekom AG, a formerly state owned company in the telecom sector. The presentation dealt both with the restructuring programs which accompanied privatisation, and current challenges, such as decreasing profit margins, broader market opening in fixed-telephony.

The fifth case study presented concerned Barclays bank, active in over 60 countries across the globe. The presentation explained why restructuring occurred in Barclays and how change is approached, involving both Barclays Group European Forum for business change, for transnational aspects, and national works council or trade unions in the countries impacted by proposed change.

The sixth case study presented concerned two cases of outsourcing of Siemens' activities in Germany and worldwide with no job losses. The two companies who took over these activities were Infineon and U.S. Lighting Co.

The seventh case concerned the region of Asturias in Spain. This mountain region with access to the seaways dominated by state owned traditional industries (mining, steel and shipbuilding). In the 1980s, mining activities were gradually scaled down and workers sent in early retirement. In the 1990s, steel activities were restructured through privatisation, with Arcelor taking over the formerly state owned company. The presentation described the various stages of the regional reconversion strategy.

The eighth case presented concerned an SME in the industrial cleaning sector in Germany. Auwera was in a situation of insolvency in 2002. It was taken over by an entrepreneur and turned into a private company in September 2002. 200 jobs were saved thanks to motivation of the employer and the workers and their mutual trust.

The ninth case concerned, Abeil, an SME of the textile sector established in France. Financial difficulties in 1992 led to a change of management and company strategy aiming at becoming the European leader in the niche market for healthcare duvets and pillows.

The tenth case concerned Metso corporation, a company producing board machines for the wood industry. Successive acquisition led to a situation of overcapacity, with similar manufacturing operations carried out in various countries or in several sites in the same country. The presentation focussed on the restructuring of its board machines activities in Tampere in 1997.

The company cases were presented jointly by a representative of the company's management and a worker representative.

## Case 1

### Norsk Hydro: the agri turnaround project

#### The company

Norsk Hydro is a Norwegian company, founded in 1905, employing some 50.000 employees in 60 countries. It had a turnover of Euro 21 billion in 2001 and is traded on the stock exchange in eight countries, including Oslo, London and New York. Its main business areas are: oil and gas, aluminium and fertilizers.

The production of its fertilizers company, Hydro Agri, was originally made in Norway and exported. However, between 1979 and 1986 it acquired production sites in the Netherlands, Sweden, Denmark, Germany and France, followed by new acquisitions in Rostock and Trinidad in 1991 and in Italy in 1996.

#### The agri turnaround project

The case presented concerned restructuring operations in 1999-2001 due to over capacity in the world market for fertilizers.

The project aimed at meeting profitability targets through ambitious cost savings, divestment from non-core activities, reduction in production capacity by one million tons involving plant closures and a reduction in the workforce from 10.000 to 7.000 employees.

#### The process of information, consultation, negotiation of social plans

It involved three stages.

- The reduction in production capacity was announced in December 1999.
- The specific plants to be closed down were identified in March 2000 (Immingham in the UK, Landskrona in Sweden and Montoir in France), June 2000 (three smaller plants in France: Hurel Arc, Socador and Socofer) and September 2000 (Oberhausen in Germany).
- The closures themselves, during which negotiations of social plans were conducted locally based on relevant rules and agreements. In France negotiations took place at national level since several plants were concerned.

The EWC, created in 1994, was involved in the agri turn around project as part of the process to explain the overall business strategy but the negotiations of social plans and involvement of outplacement services were decided locally.

#### The social consequences

A survey to evaluate the process and the social consequences was conducted after the event.

In terms of content, these seven sites employed 1.100 people. 538 were made redundant. One year later, in June 2001, 315 had found a new job. 132 were on pre-retirement and 8 on long term sick leave. 83 remained unemployed. Looking at each country separately, one year later, 44 remained unemployed in France, 25 in

Germany, 12 in Sweden and 2 in the UK. According to an estimation from December 2001, 18 months later, 12-15 % were still out of work. In Sweden, only 2 persons remained unemployed in May 2001.

The social measures prepared to accompany the restructuring were generally positively received. The content of these social plans varied depending on local circumstances and preferences. Outplacement assistance was given in France and the UK. A lot of attention was given to employability in the UK, where the plant had a long tradition of training and people were more creative in accepting other jobs than, for example, in France. In Germany, preference was given to concentrate financial means on the social plan itself.

In terms of process, the survey conducted after the events through interviews of local management and trade unions revealed that

- Uncertainties and rumours were a burden. Quick and clear decisions were preferable.
- Specific closure were difficult to accept but the strategic need to reduce capacity was well understood and it was important to explain that the closures were not due to underperformance in the plants concerned.
- Negotiations of social plans were tough but fair. The pre-existing culture of social dialogue in a good atmosphere with open communication proved its value.
- The solutions found were considered generally good but some individual exceptions remained.
- The quality of the downsizing process was less satisfactory for non production activities than for production workers.
- Local communication worked well but involvement of top management in the process in some sites could be improved.
- Good cooperation with local authorities helped to limit rumours.
- Motivation of the remaining employees was a challenge. Some left because of a fear of the future of the company.

### The business results

Other fertilizer companies outside Agri Hydro also reduced capacity and the balance between supply and demand in the market has been restored.

Agri Hydro's own targets were exceeded, leading to a strong improvement of the financial performance of the company with increased prices, improved productivity and reduced fixed costs. Benchmarking towards the main competitors confirms that in the first half of 2002, Agri Hydro was the best financial performer in its field of activity globally.

A strategy for growth has been announced. The agri turnaround process secured the future of the company in fertilizers with better jobs security.

## Case 2

### Danone: the reorganisation of biscuit production

#### The company

The BSN group, which then became Danone, started in glass production. It expanded its activities into the agri-food business, with a gradual diversification starting in France in the 1970s and beginning 1980s followed by an internationalisation into western and eastern Europe since 1985. It became a truly global company in 1997 focussing on 3 strategic activities in which it wished to become a global leader: dairy products, mineral waters, biscuits.

In 2001, Danone had a turnover of Euro 14.500 millions and employed 100.000 people in the world (44.000 in Asia –Pacific, 17.500 in America, 38.000 in Europe and 500 elsewhere). In Europe, the workforce was spread as follows: 10.000 in central and eastern Europe, 28.000 in western Europe (among which 12.000 work in France).

It has a long tradition of social dialogue, including at international level with the sectoral trade union IUF/ UITA, since 1985. This led to informal meetings in 1985-89, two joint opinions (on economic and social information and equal opportunities between women and men) in 1989, on training in 1993, on the exercise of trade union rights in 1994, on modifications of activities affecting employment in 1997 and on the social treatment of the restructuring of biscuit production in 2001. The informal meetings were transformed into a Information and Consultation Committee in 1996.

#### The reorganisation of biscuit production in Europe

Biscuit production of Danone was spread over 36 plants, employing 15.000 workers in 13 countries. It produced 600.000 tons of biscuits for a total production capacity of 1.4 million tons. It had therefore strong over capacity in a market characterised by the appearance of new players, a stable demand in volume and where innovation was the key to success.

From 36 production sites, the reorganisation of the production process aimed at creating 5 plants with a production capacity of 50.000 tons each. Twenty sites were not affected, 5 needed to be reorganised and 6 to be closed down.

The process of rationalisation was to be spread over 2-3 years and aimed at maintaining the overall production volume per country or group of countries, while specialising production in each site (as opposed to producing the same product in several sites). It involved, the closure of plants in Belgium (Beveren), the Netherlands (Dordrecht) in 2002. In 2003, closures were to be carried out in Italy (Locate) and France (Calais, Evry), reductions of capacity in Hungary (Gyor), France (Jussy and Chateau-Thierry) and increases of production in France (near Nantes and Bordeaux).

#### The process of workers involvement

The reorganisation project was presented to the EWC on 29 March 2001 and to the workers representation bodies in the sites concerned on 30 March 2001 in difficult circumstances. A draft study of consultants had been leaked in the press on 30 January 2001. This forced the management to prepare a genuine "management" project to discuss with workers in haste (this was done in less than 3 months).

IUF/UITA asked for an urgent meeting of the Information and Consultation Committee immediately after information leaked in the press. This meeting took place 10 days later but remained fairly general since Danone was confronted with the requirements of the French law, which specifies that nothing can be said until all details of the plan are worked out and the management had no detailed plan to present at the time.

The process of workers' involvement took place in 2 stages.

- Examination of the economic aspects which lasted from 1 to 7 months in each country. In France and Hungary external workers experts were involved. An alternative solution was thereby proposed and accepted allowing for activities to be maintained on a Hungarian site which was to be closed down.
- Negotiations to deal with social consequences happened in a second stage, at local level but in the framework of a joint opinion agreed with the International Trade Union of this sector on 25 October 2001, since the project involved cross-relocation of production across Europe.

This joint opinion notably foresees:

- individual accompaniment of the workers concerned to help them in finding and devising solutions such as internal redeployment (geographical mobility), external relocation in the same region, creation of one's own company, etc.,
- help by Danone to the creation of new activities or the development of existing activities on the sites concerned or close to them.

A joint evaluation is foreseen in all the sites concerned to assess the success in addressing social consequences.

#### The social consequences

The project was not completed at the time of the presentation. In October 2002, the social consequences were as follows:

<b>Closures in 2002</b>				
	<b>Persons affected</b>	<b>Cases solved</b>	<b>Case in the process of being solved</b>	<b>comments</b>
Belgium	- 415	346	27 age measures, 7 company creations	10 external relocations and 25 under examination
Netherlands	- 212	210 (taken over by the buyer of the plant)		2 external relocations
<b>Actions planned for 2003</b>				
Closure in Italy	- 272	128	60	The plant is still in operation
Capacity	- 330	190	34	50 cases

reduction in Hungary				under examination
Closures and capacity reductions in France	246+412+36+100= - 794	401	37	Solutions are delayed due to the fact that the decision cannot be taken until the end of the whole process in France
Increase of production in France	+ 270			
A different approach was taken in Ireland and the UK				

### The business results

The aim of the rationalisation was to solve a structural problem (rationalise the production inherited from gradual internationalisation of the group over two decades) so as to be in a better position to face cyclical changes in the market.

The project was still in the course of implementation at the time. No figures on the business results were available.

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Note : The social accompaniment was pursued after the presentation of the case summarised above

- Results achieved (as at end June 2003)

	Nbre of persons concerned By the restructuring <sup>2</sup>	Nbre of persons relocated	%	Among which redeployment within the Group	%	Among which age mesures	%	Among which external redeployment	%	Among which enterprise creation or other (projet personnel, invalidité,...)	%
Dordrecht	212	212	100%	24	11%	21	10%	137	65%	30	14%
Beveren	415	400	96%	248	62%	25	6%	99	25%	29	7%
Locate	274	207	76%	27	13%	62	30%	105	51%	13	6%
France	794	490	62%	196	40%	164	33%	75	15%	55	11%
Gyor	330	281	85%	30	11%	76	27%	124	44%	51	18%
<b>Total</b>	<b>2025</b>	<b>1590</b>	<b>79%</b>	<b>525</b>	<b>33%</b>	<b>348</b>	<b>22%</b>	<b>540</b>	<b>34%</b>	<b>178</b>	<b>11%</b>

- In addition, for each site, a solution of re-industrialisation was identified and is being carried out.

## Case 3

### Marzotto: restructuring woollen textile production

#### The company

Marzotto is a textile company created in 1836 in Italy, which grew through acquisitions and internationalisation. Today it is active in both fashion (Hugo Boss, Valentino, Marlboro classics, other brands under the Marzotto apparel) and textile production (woollen and cotton fabrics, woollen and linen yarns). Between 1991 and 2001, the proportion of the fashion and textile activities passed from a 50-50 situation to 80 % for fashion compared with 20 % for textiles.

In geographical terms 18% of the turnover is generated in Italy, 56% in the rest of Europe, 15% in North America, 8% in Asia and 3% in the rest of the world.

In 2001, it employed 11.772 employees (43% in Italy, 15.5% in Germany, 29.8% in other European countries, 8.5% in North America, 1.3% in Asia and 1.9% in the rest of the world).

#### The case studied

The case presented concerned the woollen textile production in Marzotto in 2000-2001. Faced with competition of synthetic fibres, the global market for fabrics is characterised by

- a growth of cotton sports wear to the detriment of formal woollen clothing,
- a polarisation between luxury products and low cost production but the disappearance of middle-market production.

Before the restructuring Marzotto plants were mainly situated in Italy and were no longer competitive for production at the low end of the market. The company therefore decided to transfer the production of low added value production to the Czech republic and Lithuania, while high added value fabrics would continue to be produced in Italy.

#### The process of workers involvement

To avoid collective redundancies, Italian law organises a system of temporary suspension of work which allows to share the work among workforce through reduction of individual working time compensated by social security payments for the time not worked (chômage technique).

In case of collective redundancies, the law requires prior information and consultation of workers representatives with a view to reaching agreement within 75 days. If no agreement is found during that period, management can proceed with the termination of contracts but have to obey strict legal criteria for selecting the workers to be made redundant.

Moreover, Marzotto has a strong tradition of social dialogue consisting in

- an agreement which foresees meetings between management and the national trade union of textile once or twice a year on the business strategy and plans,



- regular meetings (every 1-2 months) between local management and local workers representatives,
- an EWC,

The process to inform, consult and search agreement with trade unions on the restructuring case presented took place with Italian workers representatives only as the affected plants were exclusively situated in Italy. It involved the following steps.

- Trade unions agreed from the outset on the competitive reasons for the restructuring.
- Agreement with the textile trade unions was reached within 2.5 months. It consisted in agreeing to the strategy of keeping high added value production in Italy and moving low added value production (carded woollen, yarns and blankets) to Czech republic and Lithuania and included an investment plan for the countries concerned. Following a trade union request, 20% of the blanket production (luxury goods) was kept in Italy.
- Implementation of the restructuring programme was spread over 18 months.

#### The social consequences

Out of 1012 workers concerned, 360 production workers and 92 employees were made redundant. The management and trade unions agreed on a priority list with the objective of leaving no one unemployed. A high priority was given to find new jobs for redundant workers. In practice, given the relatively favourable employment situation and the good reputation of Marzotto's workers, the challenge was to ensure that the necessary people to lead the new the strategy to a success remained with the company.

#### The business results

Both the management and workers side were convinced of the relevance of the strategy chosen for the future of the company.

## Case 4

### Deutsche Telekom: managing change related privatisation and market transformation

#### The company

Deutsche Telekom was created in 1990 resulting of an evolution from Deutsche Bundespost to Deutsche Bundespost Telekom, Postdienst and Postbank. In 1995, the three companies were transformed into publicly floated companies . Deutsche Bundespost Telekom was transformed into Deutsche Telekom A.G. Today, 31 % of the shares are directly held by the state. Another 12% are held by a state owned credit institute.

Deutsche Telekom consists of 4 divisions: T-Com, T-Mobile, T-System and T-Online.

In June 2002, it had a revenue of Euro 27.76 billion and employed 259.806 people, with 32.7% of this revenue and 15% of the workforce in the T-Mobile division and 48.6% of the revenue and 61.3% of the workforce in the T-Com division.

Internationalisation of the company, notably in Central and Eastern Europe, has resulted in 30% of the workforce being abroad.

#### The case presented

The presentation dealt both with the restructuring programs, which accompanied privatisation and current challenges, such as decreasing profit margins, broader market opening in fixed-telephony.

The challenge for the company was to introduce profound changes, starting from a situation where most of the staff had a permanent protection against dismissal inherited from the past public status. Both the size and structure of the company workforce had to be significantly changed to meet the new business requirement resulting from privatisation and technological change.

The policy of right sizing was well accepted because it was carried out minimising negative social consequences. In 1994 Deutsche Telekom employed approximately 230.000 people. The evolution since then has been marked by both demanning and recruitment. The departures of some 100.000 employees from Deutsche Telekom A.G, was carried out mainly through natural fluctuations or early retirement or transfers of personnel to subsidiaries.

At the same time, the total workforce increased by 90.000 people as a result from take overs abroad and in Germany (e.g. debis-Systemhaus from the DaimlerChrysler group). New people were hired with a regular employee status (as opposed to special public employee statuses).

It should be noted that Deutsche Telekom also implemented a comprehensive training policy to upgrade the skills of its workforce. Today, the company is also the first IT trainer in Germany. It has established an internal training company which will also provide training to customers.

In the present market situation in the telecommunications sectors, characterised by financial difficulties, decreasing profit margins and broader market opening in fixed-telephony, Deutsche Telekom is forced to downsize.

As a majority of the workforce from Deutsche Telekom A.G. today still has a permanent protection against dismissal inherited from the past (approx. 50% as a result of their civil servant status and 35 % due to the employment status of Deutsche post) and in accordance with its policy of minimising adverse social consequences of the restructuring lying ahead, the company has set up an internal Human Resources Services Agency looking both at employment opportunities in the Deutsche Telekom Group and on the external labour market. The services offered by this internal agency to employees include, placement, training, coaching for interviews. Surplus staff identified on the basis of a collective agreement with the German Trade Union Verdi have been put in contact with this internal agency. This agency is self financed as companies of the Deutsche Telekom group have to pay for their services.

### The process of workers involvement

Deutsche Telekom has a long tradition of social partnership. In accordance with the German industrial relations system, it involves three different types of cooperation:

- cooperation with four trade unions: Verdi (civil service, banking, retail workers, etc.), IG Metall (metal workers), DPV KOM (communications), CGPT (Christian trade union for post and telecom),
- co-determination: the company has a supervisory board, which includes workers representatives,
- four types of employee representation committees: 4 works council at group level, 36 central works councils, 120 local works councils, a corporate group executive staff representation and an executive staff representation committee .

In addition, a European Works Council is currently being set up. It will be an information and consultation body (i.e. not a co-determination body).

### The social consequences

The policy pursued in the company allowed to minimise adverse social consequences of restructuring (see figures above). It is too early to assess the results of the newly created internal HR agency. The transfers of personnel with special protection against dismissal operated in accordance with their individual status with a special performed guarantee that people can come back to Deutsche Telekom.

### The business results

The system put in place allowed to introduce significant change in the company. It was tailor-made to the specific circumstances of the former status of public company. However, it should be noted that it is costly.

## Case 5

### Barclays method for managing change

#### The company

Barclays is one of the largest financial services groups in the UK. It is a leading provider of co-ordinated global financial services to multinational corporations and financial institutions in the world's main financial centres, and has more than 20 million customers worldwide. Barclays has been operating for more than 300 years and employs over 78,000 people in over 40 countries. It has the largest presence in Europe of any UK financial services group.

Barclays main businesses include: Personal Financial Services, the Woolwich (building society, mortgages), Barclaycard (credit cards), Business Banking, Barclays Capital (formerly BZW), Barclays Stockbrokers, Barclays Global Investors (BGI).

Its market capitalisation is GBP 40 billion and pre-tax profit in 2001 was GBP 4.1 billion.

#### The case presented

The presentation started by explaining how business change is approached in Barclays and then focussed on a specific case of business restructuring in Barclays' Personal Financial Services in the UK.

The key factors for change facing Barclays were the following:

- IT and the development of direct banking services,
- mergers leading to larger financial institutions world-wide and increased competition for both customers and skilled labour,
- increased expectations of both customers and shareholders,
- changes in legislation and the impact on employees rights.

The aim of the restructuring in Personal Financial Services (PFS) in the UK was seven-fold:

- create clearer accountabilities and speed up decision making (by reducing bureaucracy and the number of reporting layers between CEO and customers),
- ensure rapid and successful deployment of infrastructure,
- improve the competitive position of Barclays through cost reduction and productivity gains,
- improve governance and control,
- enable further integration of Woolwich with PFS,
- create appropriate management roles,
- ensure balance between products and distribution.

## The process of workers involvement

Barclays has adopted principles on how to manage change dealing with both business efficiency and fairness. Change is managed under these principles but with due reference to local markets, regulations and customs. Barclays' principles are the following:

- it will meet their business goals and objectives,
- its policies and processes will be applied fairly,
- its managers will have the leadership skills to deliver change,
- it will work hard to avoid compulsory redundancies,
- it will consult fully with their trade union, UNIFI, and their employees,
- it will take into account peoples' emotional cycle of change,
- it will not lose key people with critical skills during transition,
- it will ensure that the right people leave and retain the best people in the right roles.

The process starts with agreeing on how to describe the starting size and shape of the business (the "old world"), considering human resources fundamentals such as

- names and numbers of employees (including those on breaks),
- contract status and employment status, past performance records,
- overtime rates, use of contractors, third party suppliers, etc.
- alignment to customers, clients, stakeholders,
- skills audit, identifying specialists,
- equality and diversity measures (gender, disability, ethnicity).

It continues with defining the goals and new size and shape to meet them (the "new world"), looking at what is the best organisational design to meet these goals and which skills must be retained, explaining who will be affected.

To meet its legal obligations, Barclays has to

- consult with trade unions before deciding changes resulting in job losses,
- consult with employees individually since UNIFI does not represent all workers and the management has a legal obligation to consult everyone,
- identify and follow a fair selection process,
- act reasonably and apply adequate notice periods.

If business change has a transnational element, the Barclays Group European Forum (created in 1996) is consulted in parallel with the national works councils and/or trade union within the respective countries impacted by any proposed change.

In the case of the restructuring of PFS, consultations with the representative trade union, UNIFI, involved:

- sharing information at an early stage on the economic reasons for change and the number of employees affected,
- consulting fully and providing: written notification of the reasons for proposals, number and job roles of proposed displacements, number of employees of those job roles employed at the establishment, proposed method for carrying out proposals, proposed redundancy pay details, procedure for carrying out dismissal.

A dispute resolution procedure is included in the procedural agreement between Barclays and UNIFI. If the dispute cannot be resolved through this route, the Advisory, Conciliation and Arbitration Service (ACAS) can be used to resolve the issue without resorting industrial action.

Consultations with individual employees involve explaining Barclays goals and the process to be followed. Early consultation never defines more than “at risk of displacement”.

### The social consequences

Not all restructuring means redundancies. Sometimes more jobs are created as the business evolved overtime. UNIFI’s approach to restructuring therefore is to

- accept change but make sure that Barclays applies its declared principles and policies and that employees are treated with dignity and managed properly,
- work with Barclays for the long term employability of employees before, during and after restructuring,
- work with Barclays to make sure that compulsory redundancies can be avoided where practical,
- pressure Barclays to only restructure where absolutely necessary,

When dealing with employees affected by restructuring plans includes

- explaining employment opportunities, which are often included in restructuring,
- investing in employability (e.g. re-training for employees undertaking new roles,
- supporting employees affected by business change (e.g. outplacement guidance and offsite job centres),
- generous redundancy packages (significantly higher than UK statutory minimum).

### The business results

Barclays has put in place a flatter and more streamlined structure enabling the business to interact more easily with customers and to deliver innovative solutions to these customers much faster.

This also created more responsible roles for employees, thereby helping to develop their careers.

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## Case 6

### **Siemens: restructuring microelectronics production through the creation of a public company and moving out of the lighting business without job losses**

#### The company

Siemens offers products and services related to electrical engineering and electronics worldwide and employs more than 400 000 persons.

Siemens has managed important changes in its workforce during the last two decades. Innovation in IT means that many hardware products are now software. Today, only 25% of its workforce is in production, compared with 75 % twenty years ago. Moreover, 30.000 of its employees are employed in Asia today, compared with almost 0 twenty years ago.

Until 1995, this structural transformation was managed using the classical tools of restructuring (information and consultation, education and training to re-skill workers, outplacement by private employment services, natural departures and pre-retirement).

From 1995-1997 onwards, an additional method became part of the company's restructuring policy: divesting and sell the businesses it decides to withdraw from.

#### The case presented

Two cases from the end of the 1990s were presented. The first concerned the initial public offer (floating shares on the market) for a world wide micro electronics business group later called Infineon. The second case concerned the sale of its lighting business unit to a US company called US Lighting. Both cases show that restructuring does not necessarily involve job losses.

The reason for Siemens to decide to float Infineon shares on the market was the greater volatility in the microchips business which attracts a different type of investors than Siemens investors in general who want profitability, but also continuity (e.g. pension funds). Hence the need to create a separate business.

The reasons for selling its lighting business were different. Siemens only had substantial market share in Germany and a few other EU countries, the production of lighting was not part of Siemens' core business. Attempts to enter Asian markets had failed because its products were too sophisticated and too expensive for emerging markets.

#### The process of workers involvement

##### For Infineon

The process of the workers information and consultation started officially in 1998 but preparatory work had started approximately one year before in a very small group of the management. Strict respect of confidentiality was an absolute requirement imposed by financial market rules. If there had been any leaks at this early

preparatory stage, Siemens would have been forced to release the information to the public immediately.

Human resources were involved when available options became more concrete in the small group. The chairman of the German Central Works Council (also chairman of the EWC) was informed personally and in confidence of the reflection underway within Siemens.

The process of workers information and consultation started at national level in order to be quick. Information and consultation with the economic committee of German central works council started on 5 November 1998. The same day a press release and an e-mail was sent to employees worldwide. Information was also given to employee representatives in affected countries other than Germany. The finance minister had been informed, by phone, the previous evening.

On 21 January 1999, a meeting with representatives of all the works councils of affected EU locations took place (in accordance with the procedure foreseen in the internal EWC agreement which does not impose a meeting of whole EWC in such a case). During that meeting, the management explained

- the reasons for the restructuring of Siemens microchips activities,
- what would be the future entrepreneurship concept (create a separate company),
- that there were no employment implications.

After that meeting, the process became national again. Several meetings took place to discuss details locally.

The detailed solutions to organise the transfer of employees to the newly created company Infineon varied. In some countries, employees remained with Siemens and Siemens became a service provider to Infineon.

In Germany, negotiations on the transfer of employment conditions took place with a team of central/local works councils. A voluntary agreement was signed with them on 4 March 1999. This agreement was a commitment to promote the acceptance of the solutions defined for this transfer. Such a promotion is useful because the German labour law entitles every employee to object individually to the transfer.

#### For US Lighting

Employees were informed that Siemens intended to sell its lighting activities in November 1996.

The lighting business was offered for sale (with the support of an external investment consultant). One buyer was selected from a number of bidders on the basis of the following selection criteria: price, business concept and resulting prospects for employees.

A memorandum of understanding between Siemens and the buyer was signed.

The negotiations of this memorandum were complex because Siemens was negotiating both with the buyer and with workers representatives (local works council).



When an agreement was reached between Siemens and the Works Council, it could not be signed because Siemens could not disclose the buyer's name (due to confidentiality rules of the New York Stock Exchange that the American buyer had to respect). Siemens therefore had to create a daughter company, which signed the agreement and was subsequently sold to US Lighting. US Lighting, which had been kept informed during the process, had to take over the employment conditions of that daughter company in accordance with the transfer of undertakings directive.

#### The social consequences

Neither of these cases involved job losses due to the restructuring.

In the case of Infineon, Siemens microchips business employed 25.700 persons before the restructuring. Later, Infineon employed up to 33.800 persons.

In the case of US Lighting, Siemens lighting business employed 1000 persons. This number remained stable, apart from normal fluctuations.

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## Case 7

### **Asturias: reconverting a region dominated by traditional state owned industries**

#### The region

Asturias is a mountain region with access to the sea. It covers a surface of 10.000km<sup>2</sup> in Spain and is dominated by traditional industries (mining, steel and shipyards), which faced fundamental changes in the last 20 years due to the combined effect of decline in traditional industries and the opening of Spain to the world after decades of a closed off and state dominated economy.

#### The cases presented

The cases presented concerned the reconversion of the whole region, with a special focus on:

- Aviles, a town dominated by steel industry, with a harbour to receive mineral imports
- Nalon, a steel and mining district composed of five municipalities,
- Ciudad Astur, a town where heavy industry co-existed with chemical industry and where new activities (dairy, services, etc.) were developed.

The restructuring of the steel industry was carried out through privatisation with Arcelor taking over the formerly state owned company, while coal mining remained in state hands but activities were gradually scaled down through successive negotiations with trade unions.

Being an objective 1 region, financial support of Structural funds and of the RECHAR programme played a significant role.

In the case of Aviles, the strategy followed consisted to build on the presence of Arcelor since 1994 and on the existing harbour to turn the town to the sea.

The five municipalities of the Nalon district aimed at developing tertiary activities in context of a voluntarist policy of re-industrialisation from 1980 to 1995 but the economy did not take off and the decline continued.

Ciudad Astur's reconversion is devised and implemented with the help of a Regeneration Council which has employment on top of the agenda. The more diversified economic basis, the presence of a university and the new impetus resulting from the presence of Arcelor provided positive factors on which to build during the reconversion.

#### Social dialogue and partnership put in place

The social dialogue process to accompany these deep structural changes in the region included

- a territorial pact for employment in the mining municipalities of Asturias,
- a regional institutional pact for employment concluded between trade unions and the regional government,

- a plan for the mining sector and the reconversion of mining districts negotiated by the government and the trade unions of this sector at national level. This plan covering the years 1998-2005 allocated Euro 252.450.838 over 8 years to invest in infrastructure and put an end to the region's relative isolation.

### Results achieved

As a result of the policies of reconversion of the last 20 years, the share of public companies in regional GDP growth fell from 20% in the 1980s to 5% today.

Unemployment is below the national average at 9.8% but employment rates are very low (approximately 45.5 % for Ciudad Asturias and 32% for Nalon). A high proportion of public funds available to alleviate negative consequences of the restructuring were used to finance pre-retirement. The emphasis on regeneration programmes is more recent.

People undergoing training have 60% of chances of finding a job. Education level of young people are high, with 44 % of people from 18 to 23 years old attending university in 2001-2002. Nevertheless, young people unemployment is high and many young people leave the region. Some mismatches between supply and demand are observed. For example, vacancies in the construction sector can not be filled despite a programme to integrate women in transport and construction.

An increase in small company creation is observed but the diversification of the economy is fragile.

A more comprehensive strategy to diversify economic activities, based on a local growth and employment pact, is currently being developed.

## Case 8

### **Auwera: saving an SME threatened with bankruptcy in the cleaning sector**

#### The company

Auwera is a German SME in the cleaning sector, created ninety years ago.

#### Presentation of the case

In July 2002, the company was practically insolvent and its executives asked Mr Gronewold, a consultant who had advised the business, to take over the company because they had failed to reach agreement with the trustee.

Mr Gronewold proposed creation of a new company in the form of a public limited company (AG). However, the banks and the trustee were not favourable to this solution. He then envisaged the possibility of creating a private limited company (GmbH). This solution was acceptable to the banks and the trustee as well as the executives and the works council. Following positive signals in August 2002 from the company's customers regarding their wish to continue working with the company, a GmbH was created in September 2002.

The capital of this new business was € 60,000, plus € 100,000 for the business assets, € 80,000 for the working capital and € 10,000 to keep the same telephone numbers. The value of the land and buildings was estimated at € 410,000 but secured against loans taken out by the previous owner. In order to finance the operation, following difficult negotiations with a bank, Mr Gronewold received a loan of € 600,000, took a life assurance policy in favour of the bank and a mortgage on his own house.

#### Contribution made by employees

Without the constructive participation of the employees and works council, the business would not have been able to pursue its activities. As a transfer was involved, it was necessary to take over all the employees of the original company. In addition, the sector's collective agreement was applicable.

However, the new company decided to reduce the staff from 217 to 200 employees in order to cut personnel costs. The payroll reduction was achieved as follows: the company terminated the contracts of seventeen employees who were still on probation, one employee took early retirement and there were five voluntary departures.

In addition, the employees agreed to participate in efforts to save the business. The works council agreed to renounce the annual bonus provided for in the sectoral collective agreement (30% of salary, payable in December 2002). Some executives renounced benefits in kind (e.g. one executive renounced his company car).

#### Results

Thanks to customer confidence, the commitment of the new owner-manager and the efforts made by the employees, the business is now once more profitable and has managed to preserve the jobs of 200 people.

## Case 9

### **Abeil: innovation strategy of textile SME makes it European leader for anti-allergy duvets and pillows**

#### **The business**

The roots of the firm Abeil established in Aurillac (Cantal - France) go back to 1870. Originally a manufacturer of quilts, Abeil invented the synthetic duvet in 1969. Bought by a bank in 1989, it experienced financial difficulties in 1992 entailing a restructuring in 1993. Today it is the European leader in production of anti-allergy and anti-bacteria duvets and pillows.

In 2002 Abeil employed 152 people and had a turnover of € 24.7 million. It produces 1,300,000 duvets and 1,500,000 pillows a year. It has enjoyed a growth rate of 7.2% a year for the last five years.

Production is seasonal. 50% of turnover is earned in the last quarter of the year, 30% in December.

#### **Presentation of the case**

The European textile sector is characterised by a stable market by value (volume growth is achieved through lower prices and a change in product mix).

European production is in decline. After a relocation of production to southern Europe (Italy, Spain, Portugal), there is currently a relocation to eastern Europe. These relocations have led to severe job losses in Germany, France and the United Kingdom. The French textile sector is losing several thousand jobs a year due to a lack of competitiveness vis-à-vis European or foreign competitors.

Distribution lines are also undergoing important changes with a preponderance of sales in supermarkets (for household linen) or integrated chains rather than independent shops.

It is in this context that the new management that arrived at Abeil in 1993 redefined the business strategy to pull the company out of its financial difficulties. Losses were due to higher costs for raw materials at the same time as lower selling prices in 1992. For an SME, this pincer effect can very rapidly cause a reversal in the financial situation.

The new strategy initiated in 1993 is entitled "always a product ahead". It seeks to reposition Abeil on the market by targeting differentiation through innovation hand in hand with lower costs and better customer service. It forms part of a quality initiative.

The main means deployed to achieve these objectives are

- establishment of a research and development team focusing on health, an increase in expenditure on patents, trademarks and models, and an investment in styling,
- an investment in machines and work methods, a policy of productivity and sharing (profit-sharing agreement and a new policy for purchasing and subcontracting,

- an investment in information technologies, creation of a supply chain with a supply chain manager,
- creation of a quality department.

Creation of new positions for management control, research and development, quality, supply chain and styling is accompanied by

- a simplification of the organigram (move from eight to four hierarchical levels),
- elimination of double positions, and
- large investments in training. Training in microbiology is given to all personnel, given the re-orientation of production towards “health” products. In the absence of a specific school, the company uses alternance-based training for the creation of new positions.

The nature of employment is linked to the seasonal character of production. Creation of a grouping of employers with a parasol manufacturer has made it possible to create permanent jobs across the two businesses. The existence of two different collective agreements posed complex legal problems.

### **Workers involvement**

The new management was the instigator of the new business strategy, and it sometimes proved difficult to gain acceptance (notably by a number of executives).

Regarding the 1993 restructuring, all workers were consulted individually and as a group. In addition, it gave rise to a social plan negotiated with CFDT. Fifteen jobs out of one hundred would have to be eliminated. The workforce reduction gave rise to nine redundancies and six reassignments. Furthermore, a major effort to identify skills was undertaken in order to avoid redundancies followed by re-recruitment.

Today, innovation is the subject of an ongoing dialogue with the workers who participate actively in innovation. For instance, workers are the driving force for creation of new production machines.

Communication and dialogue are essential keys. This has become easier since Abeil reverted to being an SME. The presence of two trade unions in a small business can sometimes complicate social dialogue. Moreover, the 35-hour week has had a negative impact on communication even if its effects on the dialogue climate in the business are starting to dissipate.

### **Results obtained**

The strategy developed has enabled Abeil to become the European market leader for health duvets and pillows. It has allowed the creation of more than sixty jobs in ten years in an isolated region.

<b>year</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
<b>turnover</b> (€ million)	16.0	18.3	21.0	21.8	23.1	24.7
<b>change</b>	0%	+14%	+16%	+2%	+6%	+7%
<b>payroll</b>	105	116	127	142	147	152

## Case 10

### **Metso Corporation : restructuring board machines production in Tampere**

#### The company

Metso Corporation is a public company listed on Helsinki and New York stock Exchange. It was established in 1999 through merger of Valmet Corporation and Rauma Corporation and merging Svedala Corporation in 2001.

It produces among others board machines for the paper industry. Metso's goal is to be the leading knowledge-based, technology company. Its strategy aims at improving the productivity and competitiveness of its customers' industrial core processes, i.e develop service activities.

Metso net sales amount to EUR 4,691 million. It employs 28.500 people in 50 countries.

#### The case

The history of the development of the company's successive acquisition lead to a situation of over capacity. Its manufacturing capacity was fragmented with similar operations carried out in various countries or in several sites in the same country. Profitability in some businesses was unsatisfactory.

The case presented concerned the restructuring of its board machines activities of Valmet in Tampere in 1997.

#### The process of workers involvement

In spring 1997 the President & CEO of Valmet Corporation presented in the Valmet Forum (EWC) meeting that measures are needed in order to improve the profitability of board machine business and utilization of manufacturing resources.

Two stages should be distinguished in the process of workers involvement:

- the cooperation procedure in accordance with Finnish law,
- further information and consultation on how to deal with the social consequences.

The Finnish Act on Co-operation within Undertakings foresees that before the employer makes substantive production decisions affecting the workforce, it has to inform the employees likely to be affected by the planned action. In addition to this, the likely effects on personnel and the possible solutions are subject to negotiations between the employer and the employees concerned. This information and consultation process is called the co-operation procedure in the Finnish legal context.

There is no obligation to reach a consensus in the negotiations. The employer may unilaterally make his/her decisions after a certain period reserved for the procedure. If a consensus with the employees is reached, the employer may act accordingly without waiting for the end of the minimum period of 6 weeks reserved for the co-operation procedure to elapse.

The trade unions hold no official position in the procedure other than that the shop steward commonly represents a given group of employees in the negotiations with the employer.

### 1. The cooperation procedure

The co-operation procedure started in August 11, 1997 in Tampere, Finland concerning development plans of board machine business and manufacturing. Grounds for the negotiations:

- Rental contracts of the facilities were step by step expiring,
- Corporation had overcapacity in manufacturing,
- Profitability of board machine business was unsatisfactory,
- Manufacturing was fragmented and same components were manufactured in several workshops.

Starting of the co-operation procedure was communicated internally and externally with a joint press release.

Negotiations continued in August 25, 1997. The management presented a preliminary plan:

- Board machine business will be transferred to Karlstad, Sweden by June 30, 1998.
- Manufacturing operations in Tampere will be transferred to Kotka and Jyväskylä in Finland and to Charlotte, USA, except tube roll manufacturing and service operations.

In the negotiations personnel representatives presented questions about profitability and other grounds for the plan and management promised to present further information in more details as soon as it would be available.

The plan would have impact on the employment of about 500 employees.

Internal and external information was again distributed through a joint release.

There were several negotiations in September 10, September 25, and October 15, 1997. During these negotiations personnel representatives had made several proposals to modify the plan presented by the management. Two major amendments were:

- Sales and technology group of 50 people will continue in Tampere.
- Instead of closing down the workshop entirely it should be studied whether the manufacturing of some components could be transferred to subcontracting companies employing part of the existing workforce.

With these amendments the outcome of the negotiations was presented to the management of Valmet for their final approval. The management approved the proposal with changes based on the results of the co-operation procedure.

Communication with other stakeholders was also organized. The members of the Finnish Parliament representing Tampere area were consulted and informed by the President & CEO of Valmet. The employer's and employees' federations



were informed about the matter and its progress as well as other key players in national and regional politics but were not involved in the process.

## 2. Information and consultation on social consequences

An assignment was given to a consultant to study the possibilities of finding suitable subcontracting companies to continue manufacturing of machine components for Valmet and to other customers. This assignment was given jointly by Valmet, Tampere City, and local industry and employment authorities.

Personnel information & consultation continued, focusing on finding and developing employment options for those under threat of termination.

Sales and technology group of 50 employees was confirmed to stay in Tampere. A tube roll workshop, which was due to start operating after summer 1998, employed 80 employees.

Due to relatively favorable employment situation in Tampere area and active re-employment efforts the number of employees who were given notice of termination at the end of December 1997 was 250. The employment contracts were mainly terminating at the end of June 1998.

All employees had received a questionnaire updating their skill profile and asking about their willingness to move to other locations. This was executed jointly by the personnel management and local employment authorities.

In order to encourage internal relocation and job rotation Valmet organized orientation tours to its various locations and their employment possibilities were presented. 10 employees accepted these internal transfers within Finland, to Sweden, and USA.

Three subcontracting companies started their operations by or just after summer 1998. A prefabrication workshop, a workshop of welded components, and a painting workshop employed about 80 former Valmet employees. Valmet remained a customer to all of these but not as a single customer.

## The results achieved

As a result of active re-employment efforts by Valmet personnel management and union representatives, Tampere City, local industry and employment authorities, Chamber of Commerce, and trade unions new employment possibilities were found so that, at the end of June 1998, only 40 were without jobs. Within short period of time 30 of them were employed and only about 10 employees were left unemployed for a longer time.

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