

# ARITAKE-WILD

Joint European Level Social Partners'

Work-programme 2006 – 2008

Joint Study on Restructuring in the “EU15”

Phase one

The Netherlands

National Dossier

Den Haag

12<sup>th</sup> June 2007

Prepared by:  
ARITAKE-WILD  
2007



Project of the European Social Partners with the financial support of the European Commission

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The Netherlands National Dossier

Discussed at the national seminar in Den Haag, 12<sup>th</sup> June 2007

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## **Introduction - the Purpose of the National Report**

This report on the role of the Dutch social partners in restructuring was prepared following the discussion of an initial draft by the national social partners at a seminar held in Den Haag on 12<sup>th</sup> June 2007. The Netherlands national seminar was the second in a series of similar meetings to be held in ten European Union member states<sup>1</sup> between April 2007 and June 2008. The report was prepared by the selected external expert for the Netherlands, Dr. Valeria Pulignano, working with the expert coordinator for the project, Mr Alan Wild.

The document is presented as an “expert report”. It represents the views of the consultants involved in its preparation and does not purport to represent the views, either individually or collectively, of the Dutch social partners or the Dutch case study company representatives that contributed to it, or those of the European level social partner organisations that were responsible for its commissioning.

The prime purpose of the report is to contribute to the development of a synthesis paper that compares and contrasts the roles of the social partners in restructuring in the ten countries studied with a view to drawing lessons for the future and to help shape the activities and priorities of the social partners at the European level in this area. It also informs readers on the role played by the Dutch social partners in the process of economic restructuring at the national, sectoral and enterprise levels. By the end of phase two of the project, similar national reports will have been prepared and been discussed by the social partners in 25 European countries<sup>2</sup>. It is planned to develop an overall discussion document based on the role of the social partners in restructuring in almost every country in the European Union for consideration by social partner representatives from throughout the EU.

Frequently, studies of the role of the social partners in restructuring have focussed on well publicised cases where significant numbers of jobs have been lost in “household-name” companies. In this series of reports it is hoped to capture social partner influence on a broader range of restructuring activities that involve not only major job losses in private sector companies, but also what we have chosen to call “silent restructuring”. Silent restructuring includes change processes that have affected significantly the nature of work undertaken within a company or public sector organisation without major job loss. It also describes the changes taking place in small and micro enterprises that typically fall below the radar of official redundancy statistics. In this way the overall study will seek to capture how the social partners have influenced both the quantitative and qualitative effects of anticipating and managing economic restructuring.

The main body of the report is presented in three sections;

- ◇ Section one - A macroeconomic review of restructuring-;
- ◇ Section two – The role of the social partners in restructuring;
- ◇ Section three – Case studies.

A summary reflecting the key elements of the broader research and the content of the discussion that took place at the national seminar can be found at the beginning of each section. The reader seeking an overview understanding of the report need only refer to pages 4 and 5; 19 and 20; and 31.

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<sup>1</sup> The 2<sup>nd</sup> Integrated Project on restructuring of the EU Social Partners is divided in two phases. The first one concerns ten EU member states, notably Republic of Ireland; the Netherlands; Greece; Italy; France; the UK; Spain; Sweden; Austria and Denmark. The second phase will start in 2008 and cover Germany, Belgium, Finland, Portugal and Luxembourg. Finally, the EU social partner organisations have run a similar project which involved the 10 countries that joined EU in 2004.

<sup>2</sup> The “EU 27” less Bulgaria and Romania.

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## Section one - a Macroeconomic Overview

### *Summary*

The following paragraphs summarise the data presented in detail later in this section of the report and reflect on it in the light of the discussions that took place between the Dutch social partners at the national seminar. It can be regarded as an executive summary of the “macroeconomic overview” element of the report.

In recent years the Dutch economy has displayed steady and consistent growth. Following the general economic difficulties of the 1970's, a fundamental shift in the Dutch approach to social dialogue in 1982 set a new tone for the role of the social partners in the economic and social revitalisation of the Dutch economy. In a short, but important, document (the Wassenaar Agreement) the social partners agreed to work together on a consensual basis to contribute to sound economic and labour market policies.

Today, as this section of the report shows, the Netherlands is one of Europe's most dynamic and open economies. The mid-term macroeconomic forecast predicts continued solid economic performance and productivity growth. The Netherlands GDP will grow by 2.5% to 3.0% between 2007 and 2011 and inflation is forecast to remain under control at between 1.2% and 1.6%. The global competitiveness of the Netherlands continues to improve with the country moving from 11<sup>th</sup> to 9<sup>th</sup> place in the world between 2005 and 2006 according to the World Economic Forum.

There is no doubt that the Dutch economy has performed outstandingly in recent years. Nonetheless doubts have been expressed about the ability of the Dutch “social model” to deal as effectively with future change in the global economy as it has over the last 25 years. The circumstances that have historically been associated with the growth of the Dutch economy have changed. The driver of growth has shifted from traditional industry to the service sector. Internal market liberalisation in the “state sector” and openness to the world's new markets have been more readily embraced by the Dutch government than has been the case in many other European countries. The social partners see change as an opportunity and a challenge, rather than a problem, and the country has reaped major benefits from economic transformation. Change has however created new challenges for the country. The Netherlands needs to assure internationally competitive levels of economic performance into the long term and to develop innovative labour market measures in order to manage the social effects of economic change.

Reviewing the macroeconomic data and the Dutch social partners' reflections on it in more detail;

- ◇ The employment rate in the Netherlands has risen steadily over the last 25 years with the exception of a short term reversal in 2003 caused by the global economic slowdown. Recently, the most important generator of job growth has been the service sector rather than manufacturing and construction. In line with “Wassenaar principles”, the increase in employment levels has been energised by the social partners approach to the facilitation of flexibility in employment practices and their nationally agreed policy of wage moderation. The social partners are currently debating the appropriate approach to be taken to flexibility and security in the context of increasing internationalisation;
- ◇ Although the Netherlands sits well above both the European average and the Lisbon target with regard to lifelong learning, the Dutch economy is only in the “middle of the OECD pack” with respect to participation in university level education. Whilst those in the current labour market adapt to change rather well, it is questionable whether future labour market participants are being prepared sufficiently well for the increasingly knowledge based economy that the Netherlands must become;

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- ◇ The Dutch economy has demonstrated an ongoing ability to replace jobs lost as a result of economic restructuring with new jobs created in the labour market. Around 800,000 jobs are lost and “more than” replaced each year. There is however, a debate between the social partners whether “replacement jobs” are at a similar level to those lost and the extent to which this matters. They agree however that it is important to identify where the “real value” is created in a knowledge economy and to focus on this more closely;
- ◇ The Netherlands is widely regarded as a positive example with respect to policies that provide income replacement and labour market re-integration in cases of job loss. Similarly, programmes to further improve the business climate and to enhance entrepreneurship play a role in mitigating the social effects of restructuring as growing numbers of small businesses and independent entrepreneurs act as economic “shock absorbers”. For some, social security payments hinder re-entry into the labour market in what are considered to be lower level jobs. Others feel that the high numbers of independent entrepreneurs enjoy adequate income and job security guarantees;
- ◇ Despite an impressive overall macroeconomic performance, there remain education, skill and geographical mismatches in the Dutch labour market between the North and South of the country. Regional policies combined with the encouragement of mobility and increasing the level of employment of older workers are important issues for the social partners.

Looking to the future, two issues appear to be particularly important in securing the Netherlands’ continued economic success;

First, a high and ongoing level of investment in research and development (R&D) needs to be assured. In fact, total R&D intensity in the Netherlands has decreased recently<sup>3</sup> and is lower than the EU-25 average for the most recent years. In particular, Dutch SME’s need to spend more of their income on R&D.

Second, improvements in the educational system need to increase the university attending population and to supply labour market entrants with the competencies needed to perform in a future Dutch economic reality.

## *A Macroeconomic Overview*

### *Population growth*

In 2005 the population of the Netherlands was around 16.3 millions. Population growth in the country has slowed since 2000 as a consequence of falling immigration and increasing emigration. Annual population growth currently varies between 0.24% and 0.75%.

The Dutch population is ageing. In 2005, 14% to 15% of the population was aged 65 or more. According to the Statistical yearbook 2006 for the Netherlands, the population of this group will increase from the current 2.3 millions to 3.8 millions in 2030.

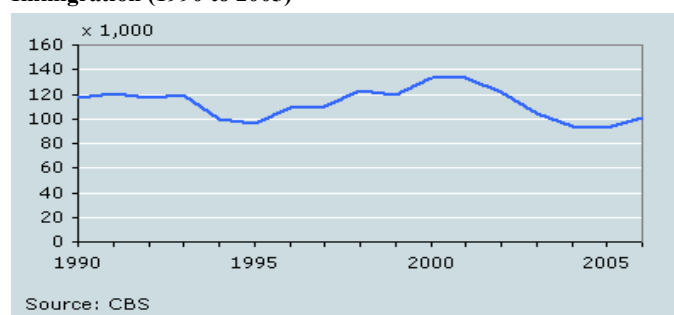
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<sup>3</sup> Ministry of Economic and Social Affairs (“Science, Technology and Innovation in the Netherlands. Policies, Facts and Figures “, 2006

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In recent years, the Netherlands has had a negative net migration rate. Immigration has varied since 1990 (see graph below), and the arrivals in 2005 at 94,000 were well below the 121,000 people that left the country.

## Immigration (1990 to 2005)



## GDP, GDP per capita, GDP growth

In 2003 the Dutch economy suffered a negative rate of economic growth for the first time in twenty years. More recently the economy has returned to growth with increases in real GDP of between 1% and 3%. Over recent years, consumer inflation has remained in line with the Maastricht criteria at or under 2%.

Looking forward, GDP is forecast to grow by 2.6% in 2007 and to average around 2.8% per year in 2008 – 2011 (see data from “The Economist” below).

## Key economic indicators

Key indicators	2006	2007	2008	2009	2010	2011
Real GDP growth (%)	2.9	2.6	2.7	2.9	2.8	2.8
Consumer price inflation (av. %)	1.2	1.6	1.5	1.5	1.5	1.5
Consumer price inflation (av. %; EU harmonised measure)	1.7	1.7	1.6	1.6	1.6	1.6
Budget balance (% of GDP)	1.0	0.6	-0.2	-0.4	-0.5	-0.7
Current-account balance (% of GDP)	8.0	7.8	6.9	7.4	7.2	7.3

Source: The Economist – February, 2007

Private consumption growth picked up in 2006 and will continue to do so in 2007, helped by a favourable fiscal policy and by increased employment<sup>4</sup>. GDP per capita grew from €31,287.5 in 2002 to €35,120.1 in 2005<sup>5</sup>. Services account for the highest proportion of the GDP (73.9%) followed by industry (23.9%) and agriculture (2.1%).

The average disposable household income in the Netherlands was €28,500 in 2004, some 7% higher than it was in 2000. The increase in purchasing power has not been spread evenly amongst the Dutch population. “Wage earning” households have benefited most, their purchasing power increasing by 10%. Households depending mainly on benefits or a pension for their income suffered a 5% decrease in purchasing power. The purchasing power of households of self-employed people fell by 1%<sup>6</sup>.

The World Economic Forum’s global competitiveness index shows the Netherlands economy to be amongst the most competitive in the world, improving two places from 11<sup>th</sup> to 9<sup>th</sup> from 2005 to 2006. It is also one of the world’s most open economies to external trade. The level of openness

<sup>4</sup> The Economist, 2007

<sup>5</sup> OECD Statistics, 2007

<sup>6</sup> Statistical Yearbook of the Netherlands, 2006: 95

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of the Dutch economy has increased significantly since the 1990s<sup>7</sup>. In recent years, macroeconomic stability and international competitiveness have gone hand in hand with low inflation, productivity growth and a favourable tax climate for business.

**Table 1: Global Competitiveness Index 2006 and 2005 comparisons**

	GCI	GCI	GCI	Changes 2005-2006
Country/Economy	2006 Rank	2006 Score	2005 Rank	
Switzerland	1	5,81	4	3
United States	6	5,61	1	-5
Japan	7	5,60	10	3
<b>The Netherlands</b>	<b>9</b>	<b>5,56</b>	<b>11</b>	<b>2</b>
Belgium	20	5,27	20	0
Czech Republic	29	4,74	29	0
India	43	4,44	45	2
China	54	4,24	48	-6

Source: World Economic Forum 2006

On the Lisbon indicators (below), the level of performance of the Netherlands is extremely good when compared with other European economies, with an overall 4th position. In global terms, the Netherlands performs better than both the United States and the “East Asian cluster”.

**Progress on Lisbon Indicators 2006**

Country	Final Index		Sub-indices							
			Information Society	Innovation and R&D	Liberalization	Network Industries	Financial Services	Enterprise	Social Inclusion	Sustainable Development
	Rank	Score	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank
<b>EU 25</b>										
Denmark	1	5,76	4	4	5	2	5	1	1	3
<b>Netherlands</b>	<b>4</b>	<b>5,59</b>	<b>2</b>	<b>5</b>	<b>2</b>	<b>6</b>	<b>6</b>	<b>2</b>	<b>4</b>	<b>6</b>
Belgium	10	5,15	14	7	10	10	11	11	6	9
Estonia	12	4,93	5	11	12	17	12	6	12	16
EU25 Average	--	4,84	--	--	--	--	--	--	--	--
United States	--	5,45	--	--	--	--	--	--	--	--
East Asia	--	5,28	--	--	--	--	--	--	--	--

Source: World Economic Forum 2007

## *UNDP: The Netherlands' Human Development Index*

Every year since 1990 the UNDP Human Development Report has calculated a human development index (HDI) that looks beyond GDP to a broader definition of well-being. The HDI provides a composite measure of three dimensions of human development: living a long and healthy life (measured by life expectancy); being educated (measured by adult literacy and enrolment at the primary, secondary and tertiary level); and having a decent standard of living (measured by GDP per capita at purchasing power parity, PPP).

The HDI for the Netherlands in 2004 (latest available data) was 0.947, which gives the country a rank of 10th out of 177 countries. This reflects a deterioration of four places from its 2000 position of sixth. Among the EU member states, only Ireland (4<sup>th</sup>) and Sweden (5<sup>th</sup>) rated higher than the Netherlands. Within “broader Europe” Norway (1<sup>st</sup>), Iceland (2<sup>nd</sup>) and Switzerland (9<sup>th</sup>) were better ranked than the Netherlands (see below).

<sup>7</sup> Ministry of Economic Affairs, 2006

The Netherlands' human development index 2004			
HDI value	Life expectancy at birth (years)	Combined primary, secondary and tertiary gross enrolment ratio (%)	GDP per capita
1. Norway (0.965)	1. Japan (82.2)	1. Australia (113.2)	1. Luxembourg
8. United States (0.948)	21. Malta (78.6)	5. New Zealand (100.1)	7. Austria
9. Switzerland (0.947)	22. United Kingdom (78.5)	6. Ireland (99.0)	8. Denmark
<b>10. Netherlands (0.947)</b>	<b>23. Netherlands (78.5)</b>	<b>7. Netherlands (98.2)</b>	<b>9. Netherlands</b>
11. Finland (0.947)	24. Costa Rica (78.3)	8. Sweden (96.5)	10. Canada
12. Luxembourg (0.945)	25. Greece (78.3)	9. Iceland (96.3)	11. Belgium

Source: UNDP

*GDI and the position of women* - The HDI measures average achievements in a country, and does not therefore incorporate the degree of gender imbalance in these achievements. The gender-related development index (GDI), introduced in the 1995 Human Development Report, measures achievements in the same dimension using the same indicators as the HDI but captures inequalities in achievement between women and men. The greater the gender disparity in basic human development, the lower is a country's GDI relative to its HDI. Netherlands' GDI value (0.945) should be compared to its HDI value (0.947). The GDI value is 99.8% of its HDI value. Out of the 136 countries with both HDI and GDI values, 19 countries have a better ratio than the Netherlands. However, rather poorer performance in life expectancy (77<sup>th</sup>) and education (111<sup>th</sup>) underline the positive impact of the high level of purchasing power parity between women and men in the Netherlands. Nonetheless, a gender pay gap does exist in the Netherlands. The increasing rate of participation of women in the Dutch labour market (from under 3 million in 2001 to nearly 3.2 million in 2005) has been particularly high in "part-time dominated" sectors like healthcare, education and public administration.<sup>8</sup>

This data is supported by the gender empowerment measure (GEM) which reveals whether women take an active part in economic and political life. It tracks the share of seats in parliament held by women; of female legislators, senior officials and managers; and of female professional and technical workers as well as the gender disparity in earned income, reflecting economic independence. The Netherlands ranks 7th out of 75 countries in the GEM.

#### *Employment and unemployment*

Total employment grew in the Netherlands by an average of 1.8% per year over the period 1983 to 1993. Growth was particularly high for part-time jobs and also, but to a lesser extent, temporary jobs. Employment continued to grow at a lower level during the second half of the 1990s and in the period 2000-2002. The most significant issue in the labour market during these periods was the increasing participation of females and ethnic minorities. Throughout this time, the Government's policy objective was to enhance labour market flexibility and to increase the country's international competitiveness. Important measures were taken after 1982 and extended in 1994 to reform the labour market – flexibilisation and modification of the social security system – and to alter the process of wage determination (see later).

<sup>8</sup> Statistics Netherlands (CBS) 2006



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## Employment (000's)

	2000	2003	2004	2005
<i>Employees</i>	6,988	7,199	7,153	7,041
<i>Self-employed</i>	1,127	1,125	1,121	1,116
<i>Men</i>	4,572	4,600	4,489	4,404
<i>Women</i>	3,544	3,724	3,785	3,753
<i>Agriculture and fisheries</i>	280	283	277	271
<i>Manufacturing and construction</i>	1,575	1,552	1,500	1,438
<i>Commercial services</i>	3,811	3,875	3,804	3,746
<i>Non-commercial services</i>	2,450	2,614	2,692	2,701
<i>Employed persons</i>	8,115	8,324	8,274	8,157

Source: The 2006 Statistical Yearbook for the Netherlands

After 2003 the Dutch employment rate decreased slightly as a consequence of the economic slowdown in 2003. The fall in employment was accompanied by an increase in the average numbers of jobs lost. In the course of 2003 an average of 40,000 jobs were lost per quarter. Job loss decreased to 15,000 in the first quarter of 2005 and this was followed by a slight increase in the second quarter. Although over this period unemployment rose more quickly in the Netherlands than in other countries in Europe, it remained low compared with the 8.0% average for the EU. Typically, around 800,000 jobs are lost and “more than replaced” in the Dutch economy every year. This labour market “churn” has facilitated significant changes in the structure of employment against a background of overall employment growth in the economy (see below).

## Employees by sector (x1,000)

	2000	2003	2004	2005
<i>Agriculture and fisheries</i>	130	135	134	129
<i>Manufacturing and construction</i>	<b>1,475</b>	<b>1,398</b>	<b>1,335</b>	<b>1,298</b>
• <i>mineral extraction</i>	9	9	9	9
• <i>manufacturing</i>	<b>1,011</b>	<b>952</b>	<b>914</b>	<b>891</b>
• <i>energy and water companies</i>	33	32	32	31
• <i>construction</i>	<b>422</b>	<b>405</b>	<b>380</b>	<b>367</b>
<i>Commercial services</i>	3,622	3,578	3,517	3,520
• <i>trade</i>	1,245	1,255	1,225	1,214
• <i>hotels and restaurants</i>	269	270	265	260
• <i>transport and communication</i>	469	470	458	449
• <i>financial institutions</i>	287	278	275	273
• <i>business services</i>	1,352	1,306	1,294	1,324
<i>Non-commercial services</i>	<b>2,183</b>	<b>2,450</b>	<b>2,459</b>	<b>2,469</b>
• <i>public administration</i>	510	553	540	529
• <i>education</i>	<b>404</b>	<b>438</b>	<b>442</b>	<b>443</b>
• <i>health care, welfare</i>	<b>955</b>	<b>1,122</b>	<b>1,144</b>	<b>1,165</b>
• <i>culture, other services</i>	315	337	334	333
<i>Men</i>	<b>4,237</b>	<b>4,151</b>	<b>4,069</b>	<b>4,022</b>
<i>Women</i>	<b>3,173</b>	<b>3,409</b>	<b>3,376</b>	<b>3,394</b>
<i>Full-time</i>	<b>4,151</b>	<b>3,975</b>	<b>3,890</b>	<b>3,845</b>
<i>Part-time</i>	<b>3,258</b>	<b>3,585</b>	<b>3,555</b>	<b>3,571</b>
<i>Permanent contract</i>	6,726	6,955	6,835	6,789
<i>Flexible contract</i>	684	606	610	627
<i>Total</i>	7,410	7,561	7,445	7,416

Source: The 2006 Statistical Yearbook for the Netherlands

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In 2002 the number of jobs in the private sector started to fall. The greatest job losses were in male-dominated sectors, like manufacturing and construction (- 49,000 jobs). In 2003 the number of jobs in financial and corporate services fell (- 21,000 jobs). This change had a higher impact on women than in earlier periods. Employment increased in the public sector (government, education and especially care) where more than 100,000 jobs were created in 2003. In non-commercial services the number of jobs rose slightly (+ 6,000). Private sector job loss continued in 2003 and 2004 at a rate that was not compensated for by employment growth in the public sector.

The Dutch labour market recovered somewhat in 2005. The 2006 Yearbook Statistic Netherlands shows the trend of job losses reversed in the second quarter of 2005. The increase in employment was higher in branches of industry like business services and health care, with many part-time workers and women, than in manufacturing and construction, where male, full-time workers are dominant<sup>9</sup>. The growth in business services was mainly due to an increase in temporary employment, but employment also increased in branches such as computer services, advertising and economic services. In other parts of the private sector, employment is still falling but the rate is slowing. Since 2005, employment in public administration has reduced significantly.

## *Small Businesses*

The importance of the small businesses sector to Dutch economy is summarised in the table below. Around 50% of Dutch workers are employed in small and medium sized companies (<100 employees). The small business sector contributes around 45% of gross value added in the economy. In the retail sector, employment in small businesses has increased significantly since 2003. Small business employment growth in industry and construction has increased less quickly than in commercial services. In the small business sector, employment growth has been particularly strong in the area of independent entrepreneurs.

### **Level of employment in SMEs (000's)**

	2003	2004	2005	2006	2007
<i>Employment</i>					
<i>MKB (SMEs &lt;100 employees)</i>	3.712	3.649	3.648	3.717	3.802
<i>Enterprises (&gt;100 employees)</i>	3.380	3.374	3.389	3.470	3.558
<i>Total</i>	7.092	7.023	7.037	7.184	7.360
<i>Percentage</i>	52.3	51.9	51.8	51.7	51.6

Source: MKB data <http://www.eim.nl>

## *Productivity growth*

From 1949 to 1980 the average annual increase in Dutch labour productivity was more than 3% per annum. However, between 1980 and 2003 the Netherlands performed less well than many other European countries. In the period 1980-1989 the average annual growth was to 1.7%. Between 1990 and 1999 the average annual increase in productivity fell to 1.1% and it reduced further in the period 2000-2003 when the annual increase in productivity average was just 0.4%.

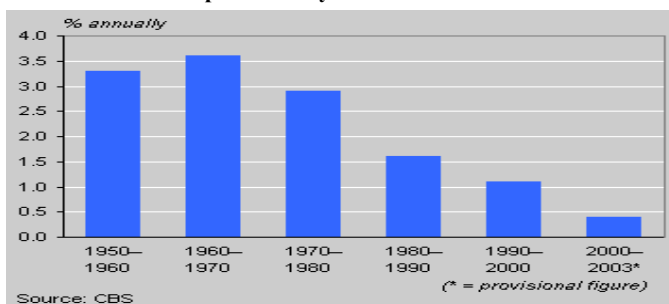
More recently (and looking beyond the CBS data provided below), in 2004 and 2005 labour productivity in the Netherlands grew by 3.3 %. The increase was the result of the recovery of production coinciding with a decrease in employment.

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<sup>9</sup> CBS, 2006

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## Increase in labour productivity



The most substantial increase in labour productivity between 2004 and 2005 was found in manufacturing industry (6.5%) and construction (6.5%). In these sectors the decline in employment was relatively larger than in other sectors, and the production growth rate was high. Productivity also grew noticeably in the trade and transport sectors (4.6%) and financial and business services (4.0%).

## Unit labour costs

Labour costs increased by over 30% between 1997 and 2002 – significantly faster than productivity growth. This increase was above the EU average and was largely due to the tight job market in the late 1990s. The increase in unit labour costs intensified as the high economic growth turned to economic recession in the early 2000's. This rise in unit labour costs alongside the rise in the value of the Euro against other currencies, especially the dollar, weakened Dutch competitiveness. This is reflected in the weak increases in goods exports in the period 2001 to 2003. After 2003, falling unit labour costs were accompanied by a parallel pick-up in exports (see below).

## Unit labour costs (market sector) and exports in the Netherlands

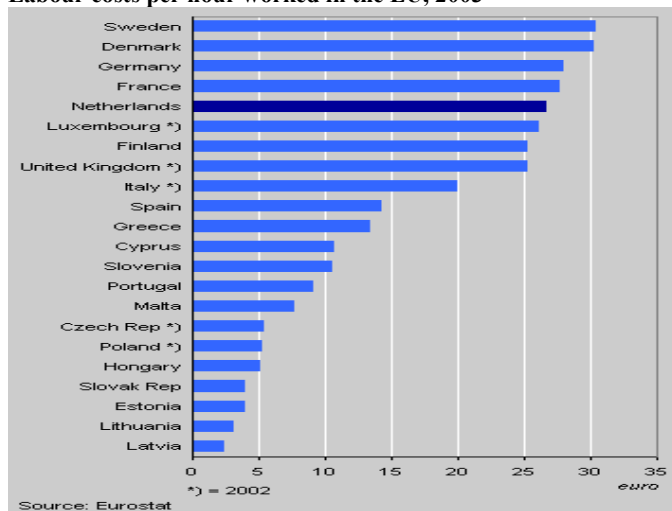


Despite increases between 1997 and 2002, Dutch unit labour costs remained relatively low by comparative Western European standards (at the time more than €4 per hour less than in Germany) as the result of the social partners' ability to control wage increases after the Wassenaar Agreement in 1982<sup>10</sup>. By 2002 the "German differential" remained, but it had reduced to around €1.5 per hour worked.

In 2003, Dutch average labour costs per hour worked for enterprises reached almost €27. At this level (see below), the Netherlands occupies a middle position between West-European countries, like Sweden and Denmark, where labour costs per hour worked are over €30, and the Mediterranean countries where labour costs per hour worked vary from €8 in Malta to around €20 in Italy.

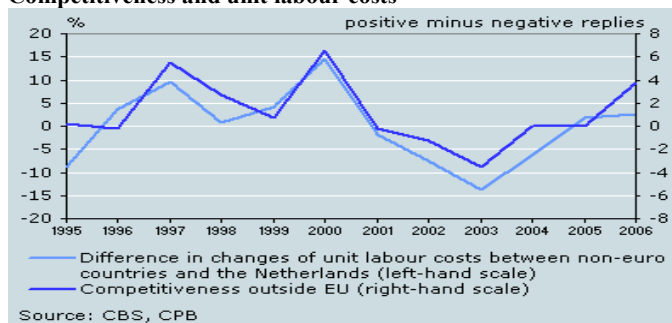
<sup>10</sup> Visser J. and A.C. Hamerijck (1997) *A 'Dutch' Miracle: Job Growth, Welfare Reform and Corporativism in the Netherlands*, Amsterdam University Press: Amsterdam

## Labour costs per hour worked in the EU, 2003



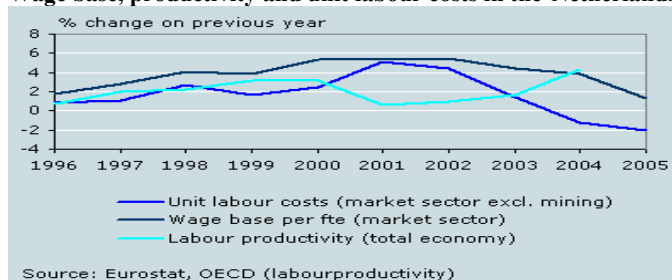
Since 2003 the assessment of Dutch business competitiveness has improved. This was helped by the agreement reached by the social partners to limit wage increases to 2.5% in 2003 and their recommendations for a pay freeze in 2004 and a small increase in pay, if the economy improved, in 2005<sup>11</sup>. In 2006 manufacturers were once more reasonably positive about their competitiveness. (see below).

## Competitiveness and unit labour costs



The following figure illustrates that in 2004 and 2005 labour productivity has risen, wage costs increases have been more moderate and as a result unit labour costs have fallen.

## Wage base, productivity and unit labour costs in the Netherlands



## Educational attainment

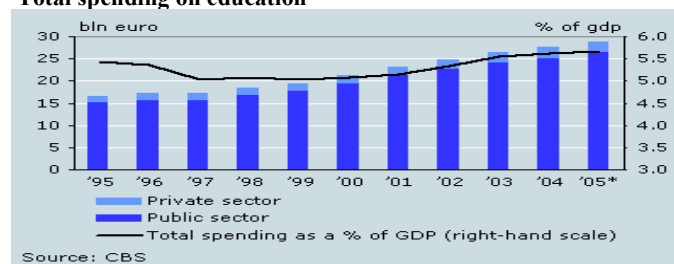
OECD (2007) data illustrate that the Netherlands has a generally sound level of general educational attainment – marginally lower than the OECD average. The position of the Netherlands in educational attainment is underpinned by increases in total spending on education.

<sup>11</sup> The “wage moderation promises” of 2004 to 2005

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Together, the public and private sectors in the Netherlands spent a total €28.7 billion on education in 2005, 4% more than in 2004.

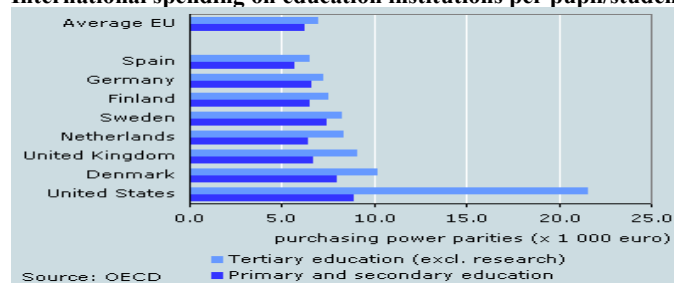
**Total spending on education**



After correction for inflation, between 1995 and 2005 spending on primary education has risen sharply: from 29% to 34%. Spending in secondary education remained stable. The proportion of adults aged 25 to 65 who have completed education at tertiary level increased from around 22% to almost 25% from 1995 to 2002<sup>12</sup>. In the “Contribution of the Dutch social partners to the 2005-2008 National Reform Programme” it is stated that investments in education should be geared to preventing students from dropping out, encouraging them to move on from lower secondary (VMBO) to secondary vocational education (MBO), improving the quality of those who do leave school with a diploma and enhancing the training possibilities for employees. The Netherlands scores around average on an international scale with respect to spending per pupil/student in all categories of education.

The key question for the Dutch economy going forward is whether “middle of the pack” performance in education will deliver the workforce the Netherlands economy will need to secure its future international competitiveness.

**International spending on education institutions per pupil/student, 2003**



Looking beyond narrowly defined classroom education, the Netherlands is a star performer in the area of lifelong learning. Eurostat (2005) data illustrate that the proportion of adults between 25 and 65 involved in life-long learning in the Netherlands (16.6%) scores well ahead of the EU15 average (12.7 %) and the Lisbon target (12.5%).

### *The structure of industry*

Services account for the highest proportion of GDP in the Netherlands (73.6 %) followed by industry and manufacturing (24.4 %) and agriculture (2.1%). Although Dutch exports are higher than imports, they have a similar growth paths.

<sup>12</sup> Ministry of Economic Affairs, 2006.

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**The structure of the Dutch economy (2006)**

Sector	Share of GDP (%)	Products
Agriculture	2,1%	Dairy, poultry, meat, flower bulbs, cut flowers, vegetables and fruits, sugar beets, potatoes, wheat, barley.
Industry	24,4%	Agro-industries, steel and aluminum, metal and engineering products, electric machinery and equipment, bulk chemicals, natural gas, petroleum products, transport equipment, microelectronics.
Services	73,6%	Trade, hotels, restaurants, transport, storage and communication, financial (banking and insurance) and business services, care and other.
Trade (2006 est.)	Exports: \$400,5 billion (f.o.b.)	Mineral fuels, chemicals, machinery and transport equipment, processed food and tobacco, agricultural products.
	Imports: \$355,8 billion (f.o.b.)	Mineral fuels and crude petroleum, machinery, transportation equipment, consumer goods, foodstuffs.
Major trading partners	Exports/imports (2005)	EU (76.8%/55.0%), Germany (23.6%/19.0%), Belgium (11.9%/10.7%), China (0.9%/7.7%), U.K. (9.3%/6.3%), U.S. (4.9%/8.0%).

Source: Us Department of States 2007 (<http://www.state.gov/r/pa/ei/bgn/3204.htm>)

*Services* – The service sector generates almost three quarters of Dutch GDP. Over the long term, the growth in business services has been clearly reflected in the development in the number of enterprises. Between 1995 and 2005, the number of service enterprises rose by 70%, compared with an average growth of 15% overall in trade and industry. By 2005, one in four enterprises in the Netherlands was active in business services.

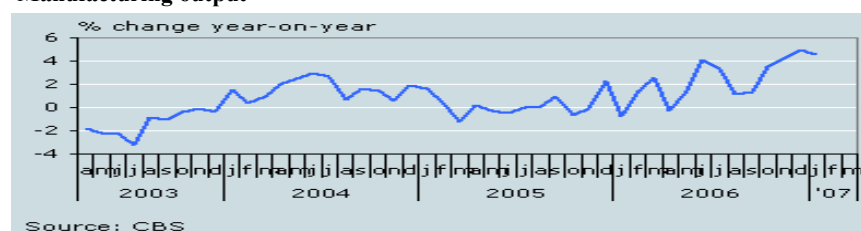
The financial sector is the largest area within business services, followed by the hotels and restaurants and IT. In 2005 the financial sector accounted for 27% of GDP. Hotels and restaurants accounted for 14% of GDP, around the same share as in the previous year. Together these sectors generated two-thirds of value added of business services in 2005. Employment in the “temp agency” industry experienced a strong growth in 2005 while it remained stable in the other sectors of employment.

*Manufacturing* - After services the manufacturing industry is the largest sector of the Dutch economy. The Statistic Yearbook for Netherlands (2006) shows that in 2005 the manufacturing sector contributed 14% to GDP, around the same as the previous year. The largest sectors within manufacturing are metal, machines, electrical engineering and transport equipment; petroleum, chemical, rubber and synthetics; food, drink and tobacco. These three sectors accounted for nearly 70% of manufacturing value added in 2005.

Following modest growth in 2004, Dutch manufacturing production stabilised in 2005. Changes in production varied widely sector by sector. The food, drink and tobacco sector; petroleum, chemical, rubber and synthetic sector; wood, construction materials and furniture sector all produced more, while other sectors delivered lower output levels than in 2004. Production fell particularly sharply in the electrical engineering and the transport equipment sectors.

Since 2006 the average daily output in the Dutch manufacturing industry has increased. In January 2007 it was almost 5% higher than one year previously. Specifically, manufacturing production was almost 2% up in the period December 2006 to January 2007 than the period October to November 2006. Production was higher in all sectors of industry. The increase was largest (9%) in the wood, construction materials and furniture industry. With an increase of almost 9%, metal industry did well too.

**Manufacturing output**



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Manufacturing employers in the Netherlands seem to be currently focussed on improving competitiveness by improving productivity and containing wage costs. Between 2001 and 2005 employment in the manufacturing industry fell by nearly 12%, compared with just over 3% on average in the Netherlands. Off-shoring in the form of relocation of production activities to low-wages countries also played a role in this (see later – outward FDI).

*Agriculture* - The number of agricultural businesses in the Netherlands fell by 16,000 to just over 81,000 in the period 2000-2005. The number of farms has dropped particularly sharply around the large cities due to “sub-urbanisation”. In less urban areas, the number of agricultural businesses is diminishing mainly because small farmers stop farming. For a number of years, smaller farms have been going out of business while larger farms have become even larger. In contrast to this downward trend, some areas of agricultural production have grown. The number of battery farms for egg production, for example, increased by 5%.

## *Foreign Direct Investment (FDI)*

### *Outward FDI*

Direct investment from the Netherlands has tripled over the past 15 years. This reflects the strong outward orientation of the Netherlands in comparison to its neighbours or countries of similar sizes.

The largest share of outward FDI is traditionally accounted for by developed countries, particularly in Europe. More than half of the investments made abroad go to other countries within the European Union and a quarter goes to the United States. The flow of investment to low wage countries (in Asia and Africa) is limited and has remained relatively stable. China is the exception to this trend and accounts for almost all of the growth within this group. Eastern Europe is also currently emerging as a favoured destination for Dutch FDI. But even with this growth, its share in the total of Dutch FDI in Europe has yet to pass 6%.

The shift towards services is noticeable in Dutch direct investments abroad. In 1984 investment related to industry made up for two thirds (68%) of total Dutch FDI abroad and services 31%. Currently services take up 51% of total FDI and industry 40%. Of all investments abroad in the service sector 72% remain in Europe, 2.4% goes to South East Asia; hardly anything goes to low wage countries<sup>13</sup>.

### *Inward FDI*

The Netherlands is a major recipient of FDI. In 2004 the total sum of FDI in the Netherlands was €368 billions. During the same year the number of foreign companies active in the Netherlands increased by 4% and the total number of employees increased by 6%. The total number of jobs in foreign companies in the Netherlands amounted to more than half a million. The majority of FDI in the Netherlands originates from European countries (58%) followed by the United States (34%) and Asia (7%). The majority of these jobs are in manufacturing, while service jobs in sales, marketing and consultancy rank second. Many foreign companies (mainly from the US) have their European or EMEA headquarters in the Netherlands

### *The nature and the extent of restructuring*

The Dutch national social partners consider restructuring as a normal part of the process of economic growth of the country. High performing economies are those that embrace the challenge of remaining internationally competitive. Almost two decades ago, Dutch employers, trade unions and the government, agreed on a policy to combat the so called “Dutch Disease” of the 1970’s. They agreed to increase labour market flexibility while simultaneously developing a system of social security which could provide income replacement and facilitate labour market re- integration. The earlier 1982 Wassenaar Agreement (see later) marked a watershed in Dutch social dialogue.

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<sup>13</sup> Biermans M. and M.J. van Leeuwen 2006 *Insight into Offshoring*, SEO Economisch Onderzoek.

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Statistical information on the number of people affected by restructuring processes as measured by the volume of collective redundancies shows an upsurge in job losses in the Netherlands since 1998. Between 2001 and 2002, there was an increase of 87% in the number of redundancies declared. During the period 1998-2002, men were nearly three times as likely as women to be made redundant, although this difference became more marked over the period. By age, the 35 to 44 year age-group had the highest levels of redundancy in virtually every year considered<sup>14</sup>. These job losses have taken place in the context of overall employment growth in the country. As stated earlier, around 800,000 jobs are lost and replaced each year in the Dutch economy.<sup>15</sup> An important feature of Dutch “job churn” is the fact that displaced people find new jobs quickly although in this context, the lack of regional mobility was highlighted as a concern during the seminar. It is claimed that the speed of re-integration is close to the fabled US level (60% to 65% of the workforce find a job within two years), and significantly better than the European average (50% to 57%).

In discussions at the national seminar it was explained that the extent of Dutch de-industrialisation is often exaggerated by the use of employment data as an indicator of industrial strength. In fact, the proportion of GDP made up by Dutch “Industry” has remained relatively constant at around 25% since the 1980’s. What is happening is that the same levels of GDP are being generated by fewer industrial workers.

Three main “restructuring related” issues merit particular attention in this report;

*i) Relocations of production* - are essentially associated with outward transfers of production by Dutch companies (off-shoring) or externalisation of activities (outsourcing) in the manufacturing and service sectors. A recent study by the Central Planning Bureau (CPB)<sup>16</sup> illustrates that the majority of relocations have taken place under the form of off-shoring (58% of firms) while 19% of firms are involved in outsourcing. The remaining 23% of enterprises have undertaken both forms of restructuring.

Relocation of activities abroad from the Netherlands doubled between 1995 and 2005. In 1995, 5% of companies relocated abroad; in 2005 10% of companies reported relocations. Most relocations<sup>17</sup> in the Netherlands go to the former Eastern European countries (52% of the relocated companies), followed by relocations to West and South European countries (42%). Relocations to Asia - largely to China (16%) and India (11 %) follow close<sup>18</sup>.

The primary reason for Dutch companies to invest in China is claimed not to be low labour costs, but the exploitation of current and potential size of the Chinese market. The businesses most frequently involved in relocation of production have been in labour intensive sectors, such as textiles, transport and metalworking. In addition, electro-technical, oil, chemicals, ICT, furniture and financial sectors have in recent years increasingly relocated abroad. In the metalworking, electro-technical and textile industries complete clusters of activities (not single firms) have relocated. Originally mainly low skilled labour was affected, but this is no longer the case. Currently, 45% of the companies relocate activities with low costs; 16% relocate high costs activities (especially in the ICT sector) and this percentage is expected to increase in the future. Relocation is dominated by large, multinational firms of Dutch origin. Examples are Shell and

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<sup>14</sup> European Monitoring Centre for Change, 2006

<sup>15</sup> The example of Nedcar (makers of Chrysler and Mitsubishi cars) was suggested – where in the first half of 2000 more than 1,000 jobs were lost and almost all were replaced elsewhere in the economy (see *Sociaal en Economische Raad Bulletin*, 12 December 2006).

<sup>16</sup> Gorter J., Tang P. and Toet M. *Verplaatsing Vanuit Nederland*

<sup>17</sup> NOTE – companies may report more than one type of relocation and therefore the total adds to more than 100%

<sup>18</sup> Ministerie van Economische Zaken (2005) *Visie op Verplaatsing*



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DSM in the oil and chemical sector, and ING, ABN/AMRO and Fortis in the bank and insurance sector.

A recent study of Dutch industrial policy commissioned by the Ministry of Economic and Social Affairs (2005) tends to conflict with the above data to some extent. In this survey the cost of labour was stated by 62% of employers as the main reason for company relocation whilst 18% mentioned the need to strengthen their market position. Other reasons, such as better economic conditions abroad seem to be of minor importance and were mentioned by 10% or less of the respondents.

Despite a relatively significant amount of relocation of production, it is important to note that the “head and tail” of activities tend to remain in the Netherlands. The CPB study suggests that the consequences of relocation of production for the Dutch economy and its labour market are not as negative as might be expected. By contrast it is stated that the relocation of production contributes to increased real earnings in the Netherlands. The Netherlands has benefited considerably as a transit country and Dutch enterprises have specialised in buying cheaply in Asia or Eastern Europe and selling more expensively throughout Western Europe. Moreover, relatively highly paid and highly specialised Dutch workers tend not to be in competition with far lower income earners elsewhere. They are more likely to compete with employees in enterprises in other developed countries and earning comparable (often higher) wages.

Putting the issue in perspective, recorded job losses as the result of international relocations of production in the Netherlands are currently limited in comparison with the number of jobs that disappear and are created as a matter of course each year in the domestic labour market. In this context, the issue occupying the attention of the social partners is whether the jobs which are newly created in the labour market (“replacement jobs”) involve the same level of tasks and competences of the ones which have been lost, and the extent to which this matters.

Two main “forward looking” conclusions can be drawn from the analysis of production relocation.

- ◇ Future damage to the Dutch economy is most likely to be caused by a relocation of R&D activities from the Netherlands. The current tendency to retain of R&D in the Netherlands has a positive effect on national productivity. This reinforces the need for the Dutch workforce to be educated at a higher level;
- ◇ The Netherlands will attract new activities by offering a business environment in which investments generate a good return. As well as assuring an enterprise friendly operating environment, the establishment of an efficient knowledge infrastructure will be important. Again this points to making effective strategic choices in the areas of education, retraining and lifelong learning.

*ii) Mergers and Acquisitions (M&A)* – it has been suggested that M&A activities and the fear of international hostile takeovers have acquired importance on the Netherlands restructuring agenda as a result of a perceived shift in the balance of power within corporate governance which has increased the pressure on management to carry out restructuring in order to deliver greater shareholder value<sup>19</sup>. This hypothesis suggests that recent, and increasing, patterns of restructuring reflect the strengthening of the position of shareholders over management. The currently topical focus on the effect on employment levels in actual and potential “private equity” targets illustrates the case.

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<sup>19</sup> EIRO 2005 *Industrial Relations Aspects of Mergers and Takeovers*; T. Edwards 2004 Corporate Governance, “Industrial Relations and Trends in Company-level Restructuring in Europe: Convergence towards the Anglo-American Model?” *Industrial Relations Journal* 35(6): 518-535.

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*iii) Liberalisation, privatisation and decentralisation of public sector enterprises and organisations* - have acquired higher importance in the Dutch context since 1995. The KPN case study described in section three of this paper illustrates the point well.

In addition, and typical of other public sector reforms, the Dutch health care system is gradually being transformed from a centralised supply side oriented system with budgetary and administrative controls towards a more decentralised demand driven system. Decentralisation of responsibilities and the introduction of competition are expected to result in improved efficiency of the health system and at the same time contain spiralling health care expenditure. In very recent years several treatments have been removed from statutory basic health care insurance; health insurers have been able to negotiate with health care providers on the price of around 10% of the production of hospital health care services; the Dutch government has concluded a national agreement with insurers and the hospital sector to improve the efficiency in the hospitals; and 1 January 2006 the municipalities became responsible for household assistance.

Liberalisation has also affected the energy sector, telecommunications and postal services. Following the 1996 EU Directive, the liberalisation of Dutch electricity and gas sectors started in 1998. The liberalisation process included a gradual opening up of markets, legal separation of distribution and network companies and regulated third party access to networks. On the production side, the centrally planned system of production was dismantled and replaced by a system of free trade. As further unbundling of networks is planned, markets are becoming more concentrated through merger activities. The recent announcement of a merger between the two biggest Dutch utilities (Nuon and Essent) provides an example. In telecommunications, reduction of costs and increasing competition are provoking major changes and influencing the government's intention to further liberalise the sector (see KPN later).

Government policy approaches to liberalisation tend to follow the conclusions of the recent McKinsey report on Dutch labour productivity (see box below).

## The McKinsey report on private sector labour productivity

In 2006, and at the request of the Ministry of Economic Affairs, McKinsey conducted a study on private sector productivity in four sectors: wholesale, retail, transport & logistics, metals and construction. The first step was an international productivity benchmark. Then, based on interviews and analysis of the economic structure of each sector, productivity improvement opportunities were identified. Four main conclusions are outlined in the report:

- The Netherlands has a low productivity growth rate. The main cause of this limited growth is the lack of competitive dynamics, shareholder dynamics and innovation;

- The lack of dynamics is mainly related to strong government intervention. Government intervention does not only increase direct company costs but also slows entrepreneurship and innovation.

- Four types of regulation are underlined:

- i) time consuming and market disturbing procedures especially in acquiring necessary licences;

- ii) lack of coordination between local-regional authorities;

- iii) over-specified regulation limiting possibilities for innovation;

- iv) regulation hampering (re) allocation of labour.

- The adoption of new concepts to create well functioning markets for products, companies and labour will allow government to stimulate productivity growth.

## Section two – The Role of the Dutch Social Partners in Restructuring

### *Summary*

The following paragraphs summarise the data presented in detail later in this section of the report and reflect on it in the light of the discussions that took place between the Dutch social partners at the national seminar. It can be regarded as an executive summary of the “Role of the Dutch Social Partners in Restructuring” element of the report.

In common with many countries inside and outside the European Union, trade union density in the Netherlands has decreased in the last three decades. The decrease is primarily related to the structural changes in the labour market described in section one of the report. Although union density has declined, Dutch trade union membership increased between 1993 and 2003. The apparently paradoxical simultaneous trends of density decline and membership increase are caused by employment growth in the economy. In common with their trade union social partners, Dutch employers’ organisations are extremely influential and enjoy high levels of membership density. Both social partners are well coordinated through a limited number of major confederations.

Collective bargaining coverage in the Netherlands is around 80% of the workforce. The system of collective bargaining has a strong legal basis and coordination across different levels of bargaining (national, sector, enterprise) is well-developed. Collective agreements cover both union and non-union members who are employed by an employer who is bound by an agreement directly or who is a member of the employer’s organisation, which is covered by the agreement.

Dutch collective employee relations are characterised by “consensus-based social dialogue” or the “Polder Model”. Bipartite consultation takes place under the auspice of the Labour Foundation, a bipartite consultative body in which the central social partners’ organisations (employees’ and employers’ organisations) are represented. The social partners engage actively with the national government on strategic and long term issues, such as wage setting, flexibility and labour market policies. At the enterprise level social dialogue is also well developed through formal structures for employee representation (work councils) which have important legal rights in the areas of information, consultation and decision making.

Both sides of the Dutch social partnership have a strong influence on the macroeconomic framework within which restructuring takes place and on the process of restructuring at the enterprise level. It was suggested during the national seminar that the Dutch model of social dialogue works well in the management of enterprise restructuring but that it is often less effective in enterprises owned by “non-Dutch” multinational companies. Tough laws appear to be only one side of the balance that makes the Polder model work effectively. Cultural differences and the lack of geographical proximity of the social partners to the place where decisions are taken reduces the scope for employees, work councils and trade unions to influence the management decision-making process and reduces the effectiveness of “Dutch style” social dialogue. Increasingly, it was suggested, even Dutch headquartered companies with “line of business” decision making centres outside the Netherlands behave differently to nationally managed companies.

This issue of dealing with globalisation, foreign ownership and international hostile bids for Dutch companies<sup>20</sup> is the subject of current debate between the social partners and the government. In the national seminar, the social partners expressed the hope that they would be able to draw conclusions on this matter during 2008.

The Dutch legal system affects equally the management of both qualitative (internal change) and quantitative (job loss) changes in the workplace. Both forms of restructuring are difficult to

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<sup>20</sup> The Barclays/hedge fund bid for ABN/AMRO was current at the time.

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effect in the absence of works council support for the proposed changes. The Dutch social partners are currently discussing the advantages and disadvantages of their “dismissal laws”. The social partners see certain aspects of the issue differently at the moment. While trade unions believe that tough dismissal laws encourage the development of joint agreement and consensus practices, the employers consider that current dismissal procedures inhibit employment creation, organisational change and productivity growth. The social partners agree however that a culture of approaching constant change in a positive manner and the ability to develop tailor made solutions to particular problems within a consistent overall framework are important. This means that both employers and trade unions need to focus on further developing the issue of “employability”. Employers have to invest more, and more consistently, in human capital and trade unions have to persuade those they represent that high levels of monetary compensation for job loss is not a satisfactory outcome.

## *The Role of the Dutch Social Partners in Restructuring*

### *The Dutch social partners*

#### *Trade unions*

Trade union density in the Netherlands was estimated to be 22.3% in 2003. In European trade union density terms this places the country in the same 20% to 29% category as Bulgaria, Germany, Greece, Slovakia and the UK. Union density peaked in the Netherlands at around 36.5% in the 1970s. In common with many other European (and non European) countries, trade union density fell dramatically between 1980 and 1990.

The statistics below illustrate a more recent and less dramatic downward trend from 24.3% in 1990 to 22.3% in 2003.

**Trade union density**

Year	Union density
1990	24,3
1991	24,1
1992	25,2
1993	25,9
1994	25,6
1995	25,7
1996	25,1
1997	25,1
1998	24,5
1999	24,6
2000	23,1
2001	22,5
2002	22,4
2003	22,3

Source: Visser (2006)

**Absolute change in the trade union density (1970-2003)**

Period	Absolute change
1970-1980	-1,7
1980-1990	-10,4
1990-2003	-2,0
1970-2003	-14,2

Source: Visser (2006)

In fact Dutch trade unions made membership gains of 130,000 people between 1993 and 2003 (see below). Employment growth over the same period however caused union density to fall.

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**Total National Trade union membership represented by national confederations (1993 – 2003)**

Confederation	1993	1999	2003	Change 1993-2003
FNV	1,092,000	1,233,000	1,226,000	+12.3%
CNV	327,000	361,000	355,000	+8.6%
MHP	146,000	219,000	169,000	+15.8%
Others	245,000	123,000	191,000	-22.0 %
Total	1,810,000	1,936,000	1,941,000	+7.2%

Source: EIRO (2007)

The declining trend in union density in the case of the Netherlands is primarily related to structural changes in the labour market. Density has been affected negatively by the rise of groups of employees with a lower propensity to unionise like service sector workers, workers employed in small firms and employees employed on “so called” non standard forms of employment.

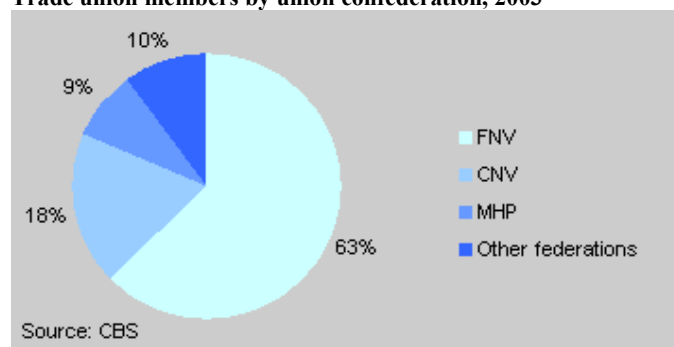
Union membership in the Netherlands is concentrated in three major trade union confederations;

- ◇ *The FNV* - has 1.2 million members. It is by far the largest of the Dutch confederations with some 15 affiliated trade unions. FNV was established in 1976 by a merger between the Socialist and Catholic confederations. The biggest affiliated union is FNV-Bondgenoten, a merger of trade unions in industry, transport, agriculture, and services which had 465,000 members in 2004. FNV–AbvaKabo organises civil servants and has approximately 360,000 members;
- ◇ *The CNV* (Christian National Trade Association) - has around 360,000 members. CNV is a Christian union, coming from a tradition of Protestant trade unionism and has an affiliation with the Christian Democratic Party;
- ◇ *The MHP* - has around 175,000 members in staff and managerial grades. MHP was set up in 1974 to represent senior staff facing increasing demands in the workplace. Today MHP also organises relatively small numbers of blue collar workers.

Outside the three major confederations are a number of small unions not affiliated to a “confederating body”.

As will be explained in more detail later, the individual trade unions, rather than the confederations, conduct collective bargaining. The role of the confederations is to coordinate the bargaining process and to take responsibility for issues that go beyond the boundaries of individual sectors. A good example is national level consultation with the government and with employers.

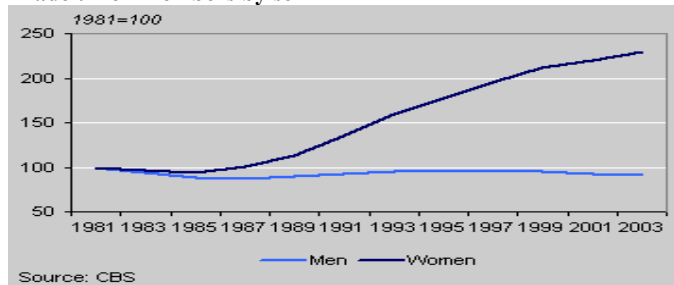
**Trade union members by union confederation, 2003**



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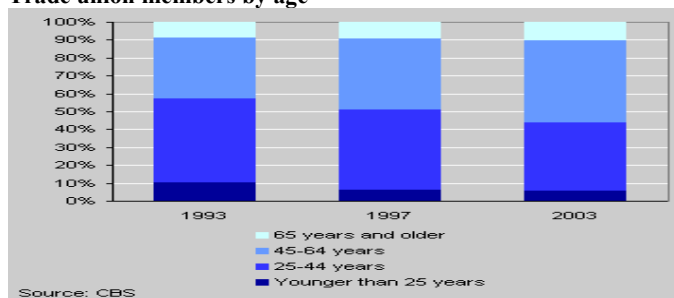
Statistics from CBS show that the number of women union members in the Netherlands has risen by 21,000 since 2001 (see below). Over the same period, the number of male members has fallen by 12,000. Compared with ten years ago the number of women members has risen by more than 40% whilst the number of men has fallen by almost 4%. In spite of this, women still account for less than one third of Dutch trade union members.

**Trade union members by sex**



Dutch trade union membership is not only becoming more feminised, but it is getting older. The following figure illustrates that between 1993 and 2003, young people became progressively less likely to join trade unions.

**Trade union members by age**



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## *Employers' organisations*

Employers' organisation membership density in the Netherlands is very high (estimated at around 85%) in comparison with that in most European countries. There are two important employer confederations;

- ◇ The VNO-NCW (Confederation of Netherlands Industry and Employers) emerged as the result of several mergers during the last 30 years. It is now the only confederation in industry and services, and unites directly about 180 sector and branch organisations and indirectly about 115,000 affiliated companies. Most of the largest companies in the country are direct members of the VNO-NCW. These companies often have a strong tradition of collective bargaining at the company level;
- ◇ Employers in the small and medium-sized firm sector are organised in MKB Nederland (Association of Small and Medium-sized Enterprises). MKB has 125 sector business associations among its members as well as around 400 regional associations. It indirectly represents the interests of about 175,000 small and medium-sized companies (generally defined as companies with fewer than 100 employees).

Associations of sectors which are a mix of large companies and SME's are sometimes members of both MKB and VNO-NCW. The Dutch Organisation for Agriculture and Horticulture (LTO) is another national association of employers with representatives in the national social dialogue bodies. Public employers are not grouped in a specific association but are affiliates to VNO-NCW when appropriate or are active in specific sectoral organisations, as in the case of public administration.

Dutch employers' organisations tend to adopt a unified position in policy debates. They meet each other regularly in the Council of Central Employers' Associations (*Raad van Centrale Ondernemingsorganisaties*) to determine common viewpoints. In 2005 the two most important organisations, VNO-NCW and MKB Nederland, considered a formal organisational alliance.

## *The structure of social dialogue*

The Netherlands is often considered a "model" country in the manner in which employment and labour issues are managed. There is a strong legislative framework which regulates the main institutions of industrial relations and which provides a broad range of rights for employee information, consultation and involvement. Formal institutions, processes and procedures (described below) regulate the relationship between the social partners and government. Probably the key contribution of the social partners at the national level in recent years has been to help shape a competitive national macro-economic employment policy.

## *Social dialogue – the Dutch system of collective bargaining*

The Dutch collective bargaining system has a strong legal basis. Under the Collective Agreements Act of 1927, only trade unions and employers' organisations possessing the proper legal capacity, and individual employers who belong to an employers' organisation with this legal status, may conclude collective agreements. An employer is deemed to be bound by an agreement if, during its term, it is, or becomes, a member of an organisation that has concluded the agreement.

*Content, levels and nature of collective agreement* – collective bargaining in the Netherlands is often described by the term "organised decentralisation"<sup>21</sup>. Collective bargaining takes place at

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<sup>21</sup> Traxler F., 1995 "Farewell to Labour Market Association? Organised versus Disorganised Decentralisation as a Map for Industrial Relations" in Crouch C. and Traxler F. eds. *Organised Industrial Relations in Europe*

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three levels – national, sector and enterprise. Collective agreements regulate most aspects of the employment relationship;

- ◇ They specify general terms like the duration of the agreement, its type (industry or enterprise level), its coverage, and in the case of industry-level agreements (particularly framework agreements) the scope for further bargaining at lower levels;
- ◇ More specifically, collective agreements lay out monetary and other terms and conditions of employment. Examples of terms and conditions include pay, allowances related to qualifications and top-up benefits, working time and early retirement schemes. Other terms and conditions often covered in agreements include hiring, notice periods, termination of employment, flexible employment relationships, training, time-off and the workplace union structure.

*National level bargaining* - plays an important coordinating role through central agreements concluded within the Labour Foundation (described below). Central agreements take the form of recommendations made to members of the trade union and employers' organisation confederations.

*Sector level bargaining* - is the most important level at which Dutch employers' organisations and trade unions undertake negotiations. Some 174 sector level collective labour agreements (CLA's) were reached in 2004. Sector agreements are increasingly "framework-style", with the more detailed provisions being negotiated at company level. Some framework agreements distinguish between mandatory provisions and those from which deviations are possible by agreement between the company and the enterprise level trade unions or works councils.

*Company level bargaining* - at this level bargaining activities are undertaken between company management and works councils. Research shows that since 1998 one-third of Dutch works councils have been involved in agreeing employment conditions by means of allocation of tasks in a sectoral CLA – for example agreements on working hours. It is noteworthy that the bigger the company is, the greater are likely to be the number of tasks allocated to the works council by the CLA.

*Collective bargaining coverage* - is very high in the Netherlands. Some 81% of Dutch employees are covered by a collective agreement. In the private sector collective bargaining coverage is 79%. Collective agreements cover non-union members where they are employed by an employer who is bound by the agreement either directly or by virtue of being a member of an employers' association. No employees, whether unionised or not, are covered by the provisions of an agreement if their employer is not bound by it either as an individual signatory or by virtue of membership of an association.

As in other Western European countries with high coverage rates, the high level of coverage can be attributed to the extension of collective agreements to enterprises not party to the negotiating arrangements. Extensions in the Netherlands were introduced through the 1937 Act of Collective Agreements. The purpose of the Act was to prevent employers who were not members of the "signing association" from setting employment conditions below those contained in the sectoral collectively agreement. Extensions are granted by the Minister of Social Affairs and Employment based on the following principles;

- ◇ A request for extension must be made by one or more of the signing parties;
- ◇ The extension applies to all employees and employers in a defined sector;
- ◇ The minimum requirement for extension is that the agreement must cover at least 55% of relevant employees.



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## *Social dialogue - the Dutch model for employee consultation and its role in restructuring Bipartite social dialogue and tripartite concertation at the national level*

The Dutch system of social dialogue is often described as the ‘Polder’ model. The term ‘Polder’ refers to a way of working together that leads to a consensus among all parties. Policy concertation through the consensus-seeking behaviours of government, employers’ organisations and trade unions is an essential feature of the ‘Polder’ model. In practical terms this means that all three socio-economic parties are prepared to settle controversial problems and regulate employee relations by means of peaceful discussion and to use cooperation and consultation rather than conflict. “Wage moderation” has been a central part of the country’s macroeconomic strategy and it has been delivered largely through the central coordination of decentralised bargaining. Concertation between the government and the social partners at national level has the following three functions<sup>22</sup>;

- ◇ It engenders macro-level flexibility when this is needed by bringing wages into line with the national economic performance;
- ◇ It prepares social and economic regulations and creates a broader basis of support for these measures;
- ◇ It provides for the joint monitoring of socio-economic trends to facilitate agenda setting for social dialogue.

There are two national forums for social dialogue in the Dutch system: one under private law (the Labour Foundation) and the other under public law (The Social-Economic Council).

*The Labour Foundation (Stichting van de Arbeid) (1945)* - is the council in which nationwide bipartite consultations take place. The chairmen of the most important trade unions (FNV) and the employers’ organisation (VNO-NCW) act as chairs of the Foundation. The Foundation works through standing committees in almost every area of social policy including wages, social insurance, company training, hiring and dismissal procedures, etc. The employer and trade union confederations meet in the Labour Foundation to;

- ◇ Advise the government (through the formulation of recommendations) on social-economic policy;
- ◇ Establish (primarily by negotiation) a national framework for the bargaining process in the various sectors and companies. A central agreement reached within the Foundation takes the form of a recommendation to the affiliated unions and employers on the attitude to be adopted in the collective bargaining process e.g. a maximum wage increase may be laid down.

Negotiations under the auspice of the Labour Foundation have led to the following main central “social pacts” ;

*Wassenaar agreement (1982)* - is regarded as a ground breaking agreement in Dutch employee relations. In substantive terms employees agreed to wage moderation in exchange for a reduction in working hours and the government promised it would show reserve with regard to intervention in employment conditions;

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<sup>22</sup> Van der Meer M., Visser J., Wilthagen T. 2003 “Adaptive and Reflexive Governance. The Limits of Organised Decentralisation”, *European Journal of Industrial Relations*, 11(3): 347-365

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*'New Course' agreement (1993)* - the social partners agreed on further flexibility of employment relationships and further decentralisation of wage setting. Specifically, the Parties agreed to a zero increase in wages and the revision of the law on employment. In return it was established that employees on flexible contracts would be offered more security while at the same time allowing sufficient flexibility to respond to economic developments. In line with this agreement, social partners started a discussion with the Labour Foundation on the modernisation of contract and labour law, which led to the "Flexibility and Security" (*flexicurity*) document in 1996 that remains highly relevant today;

*"New Agenda 2002"* - covered flexibility and job/income security for employees in new and existing employment relationships; more scope for combining working life and private life, in particular care tasks; shaping a new form of industrial relations within companies; encouraging employee training and education and improving employability;

*2002 agreement on "wage moderation"* - the Foundation requested the parties to collective negotiations not to allow wages to increase by more than 2.5%;

*2004-5 "wage moderation promises"* – dealt with active labour market policies and also produced a recommendation for no increases in contract wages in the year 2004 and to "an increase close to nil" for the year 2005.

The Labour Foundation has also reminded employers and employees of their responsibility to promote investment in human capital as the key tool to create innovation in the national economy ("social innovation"). As a result, employability, on-the-job training and job mobility projects are used to prevent unemployment while enhancing the level of competitiveness on a global scale. In order to provide the members with the tools necessary to put a well-thought-out employability and training policy in place, the Labour Foundation has updated "the 2001 employability/training recommendations for companies and parties involved in collective agreements".

*The Social-Economic Council (Sociaal-Economische Raad - SEC) (1950)* - is a tripartite organisation whose membership is equally divided amongst trade unions, employer confederations and government appointed experts. It is the government's official advisory body on social and economic policy. Currently the SEC consists of 33 members;

- ◇ 11 are "Crown-appointed members" - appointed by the government and including the president of De Nederlandse Bank and the director of the Centraal Planbureau;
- ◇ 11 members appointed by the employees' organisations; and
- ◇ 11 members appointed by the trade unions.

The Crown determines which organisations may appoint members and must specify representative organisations in this respect. The Crown also determines how many members each organisation may appoint.

## *Sectoral level social dialogue and restructuring*

Sector level bargaining is the most important level at which Dutch employers' organisations and trade unions undertake negotiations. As outlined above, some 174 sector level collective labour agreements were reached in 2004.

Restructuring bargaining is primarily a company-level matter. It is mainly handled by works councils (see below) and therefore it is not generally an issue covered by the system of sectoral

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“collective bargaining”. However, in contrast with other experiences in Europe, in the Netherlands there are a number of cases where sectors which have undergone major changes, including closures and mass redundancies, have reached sectoral agreements on the issue. Examples include shipbuilding during the 1980s, the meat processing industry (because of BSE) and printing (because of the substitution of traditional printing jobs by desk-top publishing) in recent times. Sectoral negotiations have also resulted in the development of generic “social plans” (see later). More frequently however, when restructuring occurs in small businesses they rely on the legal protection system rather than the development of more proactive “social plans”.

## *Social Dialogue at the enterprise level*

The main channel for employee consultation and representation in the Netherlands is the works council (Ondernemingsraad). The system relies on a dualistic philosophy. On the one hand, the council must represent the interests of all employees. On the other, it is legally obliged to operate in the interest of the company in general. The Dutch Works Councils Act dates from 1950 but was changed and extended in 1971, 1979 and 1998. Since 1979 the works council has been an employee-only body, elected by the workforce. A majority of works council members have links with the trade unions and 65% of works councilors are trade union members. The general attitude of Dutch managers towards works councils is generally positive and they have become an accepted fact of business life in the Netherlands. Works councils have extensive rights to information and the right of initiative, the right to give advice, and the right of consent on a number of human-resource related issues like working hours, holiday rules, pension plans, and training.

Every company with at least 50 employees is obliged to set up a works council. Some collective agreements stipulate that works councils must be set when a company employs more than 25 or (more commonly) 35 employees. In 2005, 76% of “companies in scope” had set up a works council<sup>23</sup>. Companies with between 10 and 50 employees are required to set up a personnel delegation, a body with more limited powers than a works council, when a majority of employees request it. Small companies are obliged to organise a personnel meeting twice a year. In the AVON-monitor 2004, a survey commissioned by the Ministry of Social Affairs, 64% of employees state that there is a works council at their workplace and 68% of employees state that there is a works council or personnel delegation<sup>24</sup>. The following table shows the extent and type of workplace representation.

**Implementation of the Works Council Act, 2002.**

Number of workers	3–9	10–35	35–49	50–99	100–199	200+
Works council	12%	17%	26%	61%	84%	95%
Personnel delegation	2%	13%	21%	---	---	---
Personnel meeting	45%	49%	34%	---	---	---
None	40%	22%	19%	39%	16%	5%

In formal terms the Netherlands does not automatically provide for employee representatives at board level - worker directors. A two-tier governance model for large companies provides for “executive” and “non-executive” directors on the two boards. Works councils can nominate candidates for membership of the “non executive” supervisory board. An enhanced right to nominate candidates applies to a maximum of one-third of supervisory board members so that, in practice, the body would be obliged to accept such nominations. In general, however, works councils are not very active in this respect and, hence, the practical effect of the enhanced nomination rule is limited.

<sup>23</sup> Engelen M., and Kemper R., 2006 Naleving van de Wet op Ondernemingsraden: Stand van Zaken 2005

<sup>24</sup> Van Sloten G.A., Nauta A., and Oeij P., 2004 Arbeidsvoorwaarden en arbeidsverhoudingen op ondernemingsniveau, Avon-Monitor 2004

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The Dutch system requires supervisory board members to balance different interests, such as those of shareholders, workers, and society in general. This means that although the law (enacted in 2005) gives both shareholders and works councils a potentially stronger position in appointing supervisory board members, those appointed are not meant to serve partisan interests on the board. In some cases, supervisory board members have influenced restructuring plans. The experience of Corus is reproduced below<sup>25</sup>

## ***The impact of the supervisory board on enterprise restructuring: the case of Corus***

*In the case of Corus (merger between British Steel and Hoogovens in 1999) the Dutch supervisory board, which was made up of a mixture of managers and employee representatives, threatened to use its power to veto the proposed sale of the Dutch aluminium business. Members of the board were concerned that the proceeds from the sale of this part of the business, which stemmed mainly from Hoogovens, were to be used to pay off group debt rather than be reinvested in the Dutch part of the business. The implication was that further cuts would have to occur in the UK if the Dutch supervisory board was to approve the sale. Press reports indicated the concern among some in the Dutch part of the company that Hoogovens could become Corus's 'cash cow'. The supervisory board did use its power to block the sale, throwing the company into a fresh crisis. Management's response has been to seek further rationalisation in the British part of the business, involving yet more redundancies.*

At the seminar the complexities of multiple employee representation through supervisory boards, works councils and trade unions was mentioned.

### *Social dialogue at the enterprise level and restructuring*

There is a detailed legal framework in the Netherlands that places a number of obligations upon employers to inform and consult with workforce representatives (works councils) in the event of restructuring involving job losses.

The Works Councils Act (1950) gives important rights to the works councils, including the right of access to information and to be consulted on planned changes. The works council has also advisory powers which enable it to give its opinion on proposed changes, to suggest alternatives and to take initiatives.

When a company takes important strategic decisions concerning company restructuring, including those relating to production levels and methods, work organisation, introduction of new technologies, new investments, company structure and employment levels, it must seek advice in advance from the works council. It must state the grounds for its decision, the consequences for the workers and the measures to be taken to deal with the social consequences of restructuring. Dutch legislation establishes specific obligations for employee information and consultation in the event of company mergers and takeovers.

Should the employer and the works council fail to reach agreement on proposals for restructuring, three options exist. The employer can;

- ◇ Withdraw the decision;
- ◇ Attempt to reach a compromise solution through negotiation;
- ◇ Elect to continue with the plans

<sup>25</sup> Extract from T. Edwards (2004) "Corporate Governance, industrial relations and trends in company-level restructuring in Europe: convergence towards the Anglo-American model?", *Industrial Relations Journal*, 35(6): 518-535

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Should the employer decide to proceed with its plans, it is obliged to postpone implementation for one month. Within this period, the works council is able to lodge an appeal against the decision with the Enterprise Chamber of the Amsterdam Court of Appeal which assesses whether the decision is reasonable. If the Court decides against the employer, it can force the employer to withdraw the plan, cease its implementation and adopt measures to reverse the consequences as far as possible. In this case, the employer and the works council may negotiate a compromise solution. For example, the works council may agree to a restructuring on condition that the employer agrees to keep the business in question open for a guaranteed period of time. Other than in certain exceptional circumstances, the employer is bound by such an agreement.

Where dismissals are contemplated, the following obligations apply;

## ***Legislative framework regulating dismissal***

*When an employer in the Netherlands wishes to dissolve an employment contact, he/she has the choice between asking the Centre for Work and Income (CWI) for permission to dismiss the employee, or appealing to the Cantonal Court to dissolve the employment agreement. The CWI must be notified when at least 20 employees are to be dismissed within a period of three months within a particular region. After being notified, the CWI will not be able to deal with the individual dismissals for a month unless the trade unions give notification that they have been informed and have no objection to the dismissal.*

*The longer the employment period, the more notice must be given to the employee being made redundant. For example, employees who have been with the company for less than five years receive one month's notice, whereas employees with at least 15 years service to the company must receive four months notice. The list of employees to be dismissed should, in principle, be based on the "last-in-first-out". This principle means that per category of interchangeable jobs/functions the employee with the shortest period of service with the employer should be the first to be considered for dismissal. However, when more than 10 employees are to be dismissed the "reflection-principle" ("afspiegingsbeginsel") can be applied. This means that the "last-in-first-out" principle is applied within categories of interchangeable jobs/functions per age group.*

## ***Social Plans***

Since the 1990s, generic "social plans", although not automatically part of a collective agreement, have regulated the outcomes of redundancies in large companies and in some industry sectors in the Netherlands. These generic plans are not covered by law and they are negotiated between employers and trade unions. As such the parties involved consider the social plan as a contract, in the same way as a collective agreement.

A social plan provides for a programme, which includes redeployment or job mobility, an ongoing guarantee of benefits on top of unemployment benefits or of lower wages earned in a new job, and a compensatory payment for those who are prepared to leave their job of their own accord. However, regulations on "apparently unreasonable dismissal" (kennelijk onredelijk ontslag) in the Dutch Civil Code (Burgerlijk Wetboek) provide for significant restraint on these social plans. In relation to cases based on these regulations, district court judges must conclude whether the financial compensation offered in the "social plan" is correct with respect to the relevant circumstances of the dismissal. The same situation applies to cases where judges hear requests to dissolve the employment contract and must set a level of compensation payments. Both situations affect the content of "social plans". *Particularly in large companies, the inclusion of anticipatory measures in social plans has become more important in recent years*

## ***Qualitative restructuring***

Where "qualitative restructuring proposals like changes to occupational profiles, skill requirements, working conditions and the organisation of working life are contemplated, the works council has the right of consent. Since March 1998 the list of decisions on which works

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councils' advice is compulsory has been expanded in the Netherlands to include the introduction of new technology and the provision of security systems, for example in banks. To the extent that the "social issues" concerned are not already covered by collective agreements, the employer must ask the works council for its consent. If the employer wishes to overrule a veto, the matter is first taken to a mediation committee. If the mediation fails the employer can go to court to seek permission for its decision. This permission is not automatically granted. The court gives permission only if the decision is considered essential as a consequence of important economic, social or organisational interests of the employer.

The World Bank produces a periodic index of employment rigidity which measures these ease or difficulty faced by companies in implementing change in their organization. The index measures difficulty in hiring, changes in working hours and dismissing workers. The overall "Rigidity of Employment Index" is an average of the three indices. A low score indicates "flexibility" a high score "rigidity".

The table below compares the Netherlands with other OECD countries;

<b>Indicator</b>	<b>Netherlands</b>	<b>OECD</b>
Difficulty of Hiring Index	<b>17</b>	27.0
Rigidity of Hours Index	<b>40</b>	45.2
<b>Difficulty of Firing Index</b>	<b>70</b>	<b>27.4</b>
Rigidity of Employment Index	<b>42</b>	33.3
Non wage labor cost (% of salary)	<b>18.1</b>	21.4

Source: World Bank (2007)

The Netherlands shows an above average level of overall rigidity based upon an exceptionally rigid assessment of what the World Bank terms "difficulty of firing". The costs of dismissal in terms of week's wages are also high. Proposals to reform dismissal laws are the subject of important and difficult discussions between the trade unions, employers and government.

## Section three – Case studies

### *Summary*

Two quite different case studies were presented at the Dutch national seminar by the representatives of the company management and the trade unions involved in the restructuring processes described. In both cases management sought to achieve economic and financial efficiencies as the result of proposed changes. The processes followed, and the outcomes produced as the result of restructuring, were however distinctly different;

- ◇ KPN a former state-owned and nationally-based enterprise in the telecommunication sector used its relatively strong financial position to agree a competitive “social plan” with the trade unions;
- ◇ Altoglas/Altuglas, a French-owned multinational in the chemical sector, was in a worse financial position. Local works councils and trade unions vigorously contested a HQ management decision to close a plant in the North of the Netherlands.

A number of interesting points were drawn out by the presenters and by the seminar participants;

- ◇ When a company is nationally-based and has financial means, it is easier for the local social partners to reach reasonably good agreements (“social plans”) in accordance to the tradition of “social dialogue” typical of industrial relations in the Netherlands.
- ◇ The provisions of the Dutch legal framework do not of itself assure good outcomes. The nature of employee relations in the enterprise has a profound effect on the likelihood of success or failure;
- ◇ Social partners need to reinforce their efforts to anticipate the social effects of restructuring through proactive “employability” initiatives. This has important financial implications. The available financial resources need to be invested in early and long term anticipatory measures rather than compensatory measures after the fact;
- ◇ The social partners are finding it more difficult to deal with the social effects of restructuring in new and emerging sectors where they do not have a strong history of membership and influence with either employers or employees.

### ***Case study one – KPN (telecom)***

#### *Company Profile*

KPN Telecom is the major operator in the telecommunication sector in the Netherlands. It was a former state-owned enterprise called PTT Telecom. In January 1989, the Dutch state-owned post and telecom authority PTT was changed into the Koninklijke KPN N.V. The new KPN was incorporated with two main subsidiaries PTT Telecom B.V. (offering telecommunications services) and PTT Post B.V. (postal company). The Dutch group has become one of the leaders in its sector on the national and European market with locations in Belgium and Germany (where it controls E-Plus).

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The Dutch Group's principal activity is the provision of telecommunication services to consumers and businesses. KPN divides its activities into two main divisions;

- ◇ Fixed network services
- ◇ Mobile communications

The Fixed network services division manages a fixed telephone network with nearly 8 million subscribers. It is responsible for telephone lines and calls including calls to mobile phones and internet traffic. The division plays a leading role in developing internet and broadband services and the distribution of content. Mobile communications operates in the booming mobile telephone market (17 million customers). It provides a wide range of mobile communication, information, entertainment and commercial services. The group is also active in other areas, though on a smaller scale, for example equipment installation, distribution and maintenance. Other activities comprises of business communication solutions and retail distribution channel.

## SALES PER ACTIVITY

Fixed phone lines:	54%
Mobile telephony:	54%
Misc.:	2%
Elimination on consolidation:	-10%

Sector Data as of 31/12/2006

## KEY FIGURES

Year	2005	2004	2003	2002	2001
Net Operating revenues*	11,936	12,102	12,907	12,784	12,859
Net Profit*	1,437	1,511	2,731	-9,542	-7,495

\* in million(s) of Euro

Data as of 31/12/2006

On 1 January 2001 there were 37,221 employees in KPN. This number was progressively reduced to 20,821 employees by the end of 2006 as the result of a virtually continuous process of restructuring which has affected the company since 1998.

Currently, there are four major trade unions in KPN:

- ◇ ABVAKABO FNV: the public service workers' trade union affiliated to the Dutch Trade Union Federation (Federatie Nederlandse Vakbeweging, FNV) is the biggest union with around 50% of membership
- ◇ Bond: union of the Telecom employees
- ◇ CNV Publieke Zaak: the Christian trade union federation
- ◇ CMHF/VPP: union representing the high level employees

### *Three waves of restructuring at KPN Netherlands*

#### *Phase one - 1998 to 2001*

A first announcement of restructuring was made by the company on 3 November 1998. It was announced that 3,000 of its 32,000 full-time jobs would disappear over the next three years. Two-thirds of the redundancies were to be amongst technicians. In addition, 1,300 part-time jobs were to be cut. Conversely, an estimated 1,000 new jobs was to be created in mobile telecommunications and internet services sectors. The company allocated NLG 800 million for



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the re-organisation process. At the time, trade unions feared that the number of redundancies would in reality be higher; some 6,000 employees would probably lose their jobs due to the fact that many positions were on a part-time basis. The unions also stated that options for the redeployment of personnel were limited. Finally they supported the idea that the NLG 800 million should go towards retraining programmes. In particular, the Christian Trade Union Federation (Christelijk Nationaal Vakverbond, CNV) wanted to see the further expansion of KPN's existing "mobility centre" for retraining staff, which at that time had an annual capacity of 1,200 people.

## *Phase two – 2001-2003*

2001 was a critical year for KPN. The CO was replaced and the company developed a new strategic plan with two major focuses: concentration on the "core business"; and downsizing of the workforce.

As part of the latter, in October 2001, KPN announced plans to make a further 4,800 employees redundant. This amounted to around 10% of the company's overall workforce. The job cuts were heaviest in KPN's distribution channels, fixed-network services and support services, as well as at its head office. The primary aim of the redundancies was to reduce further the company's debt burden, which amounted to EUR 22.8 billion net - mainly as a result of the takeover of the German company E-plus, the purchase of expensive 'universal mobile telephone services' (UMTS or 'third-generation' mobile telecommunications) and licenses and high investments. The debt amounted to approximately EUR 447,000 per employee, twice the level at companies such as British Telecom and Deutsche Telekom. Management expected that the redundancies would generate annual savings of more than EUR 700 million, though these were only realised from 2003 onwards.

## *Phase three - 2004-2007*

In November 2004, KPN announced a further round of compulsory redundancies in its fixed-line telephone services division. Under the plan, 700 information technology-related positions became surplus to requirements in the 2005-2007 period. In October 2004, KPN had already announced that there would be 750 job losses at its Entercom unit, which installs and maintains telephone exchanges. A decision was also reached at the start of 2004 to eliminate 800 jobs at the company's fixed-line telephone services division.

The 2004 announcements amount to some 2,250 job losses out of a total of 13,000 at KPN's fixed-line telephone services division, where two-thirds of its overall workforce is employed. The re-organisation of this division has been ascribed to dwindling turnover. Of all households, 11% no longer have a fixed-line telephone connection. While the division has been developing new products such as ADSL connections in a bid to compensate for turnover losses, this has not been sufficiently successful. While hopes are now pinned on new products including internet telephone services and digital television, these have yet to prove their worth. Despite the setbacks, the fixed-line telephone services division is still making a profit. The fixed-line division generates a gross profit of 40 cents per Euro compared with 30 cents per Euro for the mobile division. According to KPN, currently the restructuring is far from finished and new changes are in the pipeline for the fixed-line telephone services division, where further compulsory redundancies cannot be ruled out. The latest reorganisation will mostly affect information technology (IT).

## *Negotiating the social consequences of restructuring at KPN Netherlands*

In late November 1998, Dutch trade unions affiliated to the FNV and CNV confederations signed an agreement with KPN Telecom on the company's redundancy plan covering its forthcoming re-organisation. At that time, one of the business units to be hit hardest by the re-organisation, the company's telephone information service was facing closure of 12 of its 18 departments. As a result, KPN planned to concentrate the division's activities in a smaller number of branches.

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Temporary employees were the most affected by the changes: 700 of the 800 temporary positions filled at the telephone information service were to have disappeared before 2001. The consequences for permanent staff were less dramatic: the number of jobs was cut back from 1,100 to 850. The “social plan” included measures to compensate for most of the associated social consequences. It was agreed no compulsory redundancies amongst permanent staff, in view of the fact that the company had stopped recruiting external staff. Permanent staff also received help in finding new jobs over the coming two years.

On 17 November 2001 a second agreement was reached between KPN and the trade unions to deal with the social consequences of the second wave of restructuring. As a result the number of compulsory redundancies was reduced from a proposed 4,800 to 2,800. To this end, all levels of staff accepted lower pay over a two-year period. Management staff suffered a 15% salary reduction and the pay cut amounted to somewhere between 2.5% and 10% for lower-level staff. Furthermore, in the year ahead, employees would not be awarded a salary increase or any form of profit-sharing. However, KPN allocated between 400 and 1,000 share options to each of its employees as compensation for these measures.

The cost savings generated by the agreed measures have been used to finance a voluntary departure scheme for 2,300 employees, mainly workers aged 55 and upwards. The “social plan” included measures of early retirement and support to employees who were leaving the company to find another job somewhere else. In particular, on 27 October 2001, the government announced that it would assist the employees dismissed from KPN in finding new jobs. To this end, a special taskforce was established and headed by the Minister of Social Affairs and Employment, Mr. Willem Vermeend. The intention was that the taskforce would have included representatives from Centres for Work and Income (Centra voor Werk en Inkomen), the National Social Insurance Institute (Landelijk Instituut Sociale Verzekeringen), the Employment Office (Arbeidsbureau), two ministries, the trade unions, labour market experts and KPN itself. The mobility programme was supported by the creation of “mobility shops” for those employees who were looking for another job. The conditions of the labour market, which were far more favourable than in the past, favoured this programme. Generous compensation packages were also foreseen for lay offs. It was agreed by the local social partners that the cost for the compensation packages would have been financed through simultaneously agreed sober collective negotiations.

Most recently, the KPN central works council has raised doubts about the latest wave (2004-2007) of reorganisation proposals affecting information technology-related positions (IT). AbvaKabo, has also expressed concern over developments at KPN. On 13 January 2005 a new collective agreement was reached between the management and the central works council. It outlines the engagement of the local social partners to avoid compulsory redundancies by retraining staff in order to fill alternative functions within (and outside) KPN. As part of a two-year agreement (so-called Mobiliteitsakkoord or Agreement on Mobility) the social partners exchanged “no forced dismissal” with a consistent package of re-training, outplacement and employability measures (or facilities) for those employees who, as a result of the “selection on quality” presigia, are considered by management as “not fitting with the job” and, therefore, to be likely the first to be made redundant in the short term. The purpose was to stimulate voluntarily resignation and minimizing lay offs. The facilities indicated in the agreement include:

- ◇ Support for employees who leave the company to find another job through interim agencies (i.e. Randstad). Employees who “do not fit with the job” receive support to find a new job. This support consists of a series of different measures, such as how to make a job application, how to look for a new employer, being introduced to potential new employers;
- ◇ Compensation on top of the salary level;

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- ◇ Support for employability: KPN reserve extra financial support to enhance the level of employees' education, knowledge through (re)training programmes within (and across) sector.

## *The role of the social partners in the restructuring process at KPN Netherlands*

Three factors can be highlighted as central to the management of the restructuring process at KPN Netherlands;

*i) Information and consultation with employees and their representatives structures, in particular the works council:* The involvement of the central work council in the implementation of the "selection on quality" measure in 2005 helped to sensitise employees to the new company's needs and to obtain consensus from them (through the works council) as well as to establish a climate of credibility between employer and employees.

*ii) Negotiation with the trade unions:* In comparison with the "social plan" in 2001, in 2005 the negotiation of the Mobiliteitsakkoord with the trade unions successfully created a context where the social effects of restructuring could be anticipated and handled. The labour market measures (or "facilities") introduced in the agreement helped employees and the employer to prepare to anticipate the social consequences of the restructuring process.

*iii) Employability and retraining as a central company policy issue:* By investing to enhance the number of employees potentially employable outside (and inside) KPN, the company created the conditions in which the social partners could better anticipate and handle the process of restructuring.

## **Case study two – Atoglas/Altuglas (Chemical)**

### *Company Profile*

Atoglas/Altuglas International has been a business unit of the French-based Arkema Group since 2005. Arkema was created in October 2004 from the reorganization of Total's Chemicals branch. It manufactures and markets internationally more than a quarter (almost 20%) of the world's production of polymethyl methacrylate (PMMA), also known as acrylic glass. The company has a worldwide presence, with 8 production facilities (3 in Europe, 4 in North America and 1 in South Korea). The European production facilities are based in France (2), Italy (1) and before 2006 also in the Netherlands (1). Atoglas/Altuglas International manufactures and market PMMA resin and sheet products under the brand name Plexiglas in North and Latin America, and under the brand name Atoglas/Altuglas in Asia/Pacific, Europe, Africa and the Middle East.

Since their introduction nearly 70 years ago, Plexiglas acrylic resin and sheet products have been the standard of the industry. Atoglas/Altuglas International also manufactures and markets Tuffak polycarbonate sheet in standard and impact-modified grades for moulding and extrusion; and Solarkote acrylic capstocks and resins for co-extrusion atop other substrates. The company's many products serve a diverse range of markets and applications. These include retail point of purchase displays and signage, optical media such as glasses, DVD and audio discs, public transportation and aircraft glazing, automotive instrumentation, illumination and body panels, building and construction products, commercial lighting, medical products and more.

Atoglas/Altuglas International's primary aims are to :

- ◇ Improve the performance of its existing products;
- ◇ Create new products;
- ◇ Anticipate needs with standard products;
- ◇ Develop new markets, and to respond to other more specific requirements.

# ARITAKE-WILD

New product development proceeds in light of customer requirements, and it benefits from the support of Arkema R&D centres. The company ownership has been characterised by several changes. In 1987 the historical Atoglas/Altuglas was renamed Cdf Chimie SA and consequently in 1988 Orkem. At the beginning of the 1990s a joint venture (Ato-Haas) was created between Elf Atochem polymethyl methacrylate (PMMA) with Rohm and Haas.

In 2006, one of the production units of Atoglas/Altoglas, the Leeuwarden plant in the Netherlands was closed down. Despite a strong attempt made by the work councils and the trade unions to keep the plant open by exercising pressure on corporate management to negotiate a plan for the revitalisation of the company, the production was moved to the French plant of Saint-Avoid.

Before the closure, the employees at the Leeuwarden plant were 135. The trade unions present at the Leeuwarden plant were FNV (*Federatie Nederlandse Vakbeweging*) and CNV (the Christian trade union federation). The Leeuwarden plant was a highly unionised plant.

## *Two waves of major restructuring at Altuglas*

### *Phase one – 1990s*

At the beginning of 1990s Ato-Haas started to discuss a restructuring plan with the trade unions which led to the loss of 227 jobs in Europe. At that time, a spokeswoman for Elf Atochem said that the restructuring was an economic necessity and was the consequence of a slump in the European PMMA market. In France the job cuts would have affected almost 36% of the total workforce. In particular, the Bernouville site in Normandy would have been the worst hit, with 111 job losses and the shutdown of the Atoglas/Altuglas cast sheet production. The Saint-Avoid site in north-eastern part of France would also have been affected, as well as Ato-Haas headquarters and agencies. In February BASF announced it was looking for a buyer or a partner for its PMMA business. Most PMMA producers, including Ato-Haas, are not interested in buying the business, due to the depressed European market.

### *Phase two – 2000s: the closure of the Leeuwarden plant in the Netherlands*

In June 2004, the work councils at the production plant of Leeuwarden (in the North of the Netherlands) were informed by local management of the corporate decision to close down by September 2006 the Dutch production unit, with the loss of 135 jobs, and the transfer of production to the French plant in Saint-Avoid. The reasons of the restructuring were highlighted by management as being mainly economic, such as the overcapacity for PMMA production in Europe. The restructuring process, with the closure of the Atoglas/Altuglas plant at Leeuwarden, would have led to the reduction of costs and the increase in production efficiency of the corporate.

The process of closure in Leeuwarden, which was concluded in December 2006, was articulated in 4 different phases characterised by the gradual closure of different areas of the plant. Following the information of the closure, the works councils decided in agreement with local management, to develop a plan of revitalisation (“Leeuwarden open”) by the end of 2005 in order to avoid the closure. The plan should have summarised the recommendation given by the local work councils to management against the corporate decision of plant closure. Moreover, it should have been presented to French corporate management who committed to come over to listen to the presentation.

“Leeuwarden open” foresaw a scenario in which dismissal should have affected only 40 employees. The plan also indicated the intention of works councils and trade unions to negotiate a social plan with the company in order to address the social consequences of those 40 employees. Local management rejected the plan twice (in the summer of 2005 and at the beginning of 2006) thus refusing the recommendation given by the work councils. The main

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reason of non-acceptance was indicated by management as the fact that the plan should have been evaluated in the light of the broader “European objectives” of the corporation and that therefore Atoglas/Altuglas management would have discussed only in front of a Social plan covering the entire workforce (135) at Leeuwarden. It is important to highlight that the attempt by the works councils and the trade unions to open negotiations with the company on the plan continued for all the first half of 2005 and it was accompanied by a long strike activity, which covered 19 days and involved the overall workforce at the Leeuwarden plant. The strike was the result of the Dutch trade unions’ (affiliated to FNV) feeling that the decision of the closure had been already taken by the corporate headquarters in France and that there was no possibility to influence it by attempting to negotiate a plan of revitalisation with local management. The Dutch trade unions tried to exercise pressure on management by forcing it to negotiate a “social plan” as a way to face the social consequences of the restructuring.

The management decision of closure was confirmed for the end of 2006. A “social plan” for the closure of the Leeuwarden plant was finally negotiated in 2006 between the management and the trade unions. The social plan contained employability measures and financial procedures for dismissal covering the 135 employees, retraining procedures, outplacement of the employees within the group Arkema, and support for entrepreneurship initiative.

*The role of the social partners in the restructuring process at Atoglas/Altuglas Netherlands*  
Three factors can be highlighted as central to the management of the restructuring process at Atoglas/Altuglas Netherlands;

*The lack of influence of the work councils and the trade unions on the process of corporate decision making concerning the plant closure:* The distance (geographical and cultural) with the corporate headquarters based in France negatively affected the involvement of the works councils to the process of restructuring at Atoglas/Altuglas. This manifest itself in a number of aborted attempts to negotiate the “social plan” and strike action. There was clearly a negative psychological effect on both employees and local management.

*The European Works Council:* The structure of the France company effectively excluded Atoglas/Altuglas representatives from restructuring discussions at the European level. Decisions to take job losses in the Netherlands rather than France were clearly viewed differently in the different locations.

*The difficult financial position of the company had an effect on the management of the process of restructuring and its outcomes:* Despite the negative recommendation by the local work councils and the attempt to negotiate a plan of revitalisation in order to keep the plant open, the company succeeded in implementing the process of restructuring. The negative financial position of the company left employee representatives with few practical options despite the provisions of Dutch law relating to restructuring.



Project of the European Social Partners with the financial support of the European Commission