ERM case studies: The consequences of mergers and acquisitions

<table>
<thead>
<tr>
<th>Introduction</th>
<th>Main reasons for mergers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Effects on employment</td>
</tr>
<tr>
<td></td>
<td>Consultation and involvement of trade unions</td>
</tr>
<tr>
<td></td>
<td>List of company case studies</td>
</tr>
<tr>
<td></td>
<td>Individual case studies</td>
</tr>
</tbody>
</table>
This report explores the consequences of mergers and acquisitions for the companies and employees involved, as well as for the wider economy, on the basis of in-depth company case studies in 25 EU Member States and Norway. The study aims to summarise the features of the mergers or acquisitions covered and their effects. The case studies present details of the companies concerned, their size in terms of employment and nationality, their sector of activity and a brief review of developments leading up to the merger. In addition, the case studies explore the companies’ reasons for merging, the policy followed after the event, the impact on workers, as well as the extent to which workers were consulted in the lead-up to the merger.

Introduction

Mergers are a major feature of market economies which have potentially conflicting effects on competition. According to conventional economic theory, they tend to increase the degree of monopoly power and so reduce competition and its beneficial effects on economic efficiency. However, in reality, in a monopolistic world where size matters, they can increase the effective degree of competition. In other words, in markets where competition takes place between relatively few large producers, mergers can be an important means of increasing the economic and financial strength of smaller companies and enabling them to compete on more equal terms with larger companies. As such, mergers can create a countervailing force to combat the dominant position of the latter and therefore put pressure on them to seek ways of continuously improving their efficiency, as much as competition between a large number of small companies is supposed to do in competitive markets.

Competition tends to take place not only in terms of price, as assumed by conventional theory, but also at least as much if not more in terms of product design and quality, as well as the ability to deliver to customer specifications. Therefore, it is the capacity to innovate and to invest in product development and improved methods of production that are ultimately the key factors of competition rather than the simple ability to reduce costs. These factors – which are dynamic rather than static – tend to be linked to varying extents, depending on the sector in question. In this regard, the size of a company and its command over investment resources as well as its research and development (R&D) capacity and not so much its efficiency are defined in static rather than dynamic terms.

How far this alternative view is valid and how far, on the contrary, mergers tend to be a source of increased monopoly power depends in practice on prevailing circumstances, which is why competition authorities – or anti-trust bodies – across the world have come to adopt a pragmatic approach to policing company activities in this respect. They have, moreover, had to take increasing account of the process of globalisation, and of the liberalisation and expansion of trade and capital flows and the removal of restrictions on business ownership that have accompanied it. This, therefore, has led to a widening of the definition of markets in which the extent of competition needs to be assessed, which can no longer be restricted to the domestic market, while at the same time expanding both the opportunities and pressures for mergers.

As a result, the tendency has been for national and regional – at the EU level – authorities to adopt a more lenient attitude towards mergers between large companies and to pay more attention to the way that competition between large companies operates in practice. At the same time, national governments have become more aware of the potential effects of mergers on jobs. They consider mergers both as a threat to jobs in cases where they lead to a rationalisation of activities and as a possible means of safeguarding jobs in cases where a company in financial difficulty is taken over by a successful one, often a multinational company based abroad.

The purpose of this report is to find out more about the factors that motivate companies to merge with, or to take over, other companies and the consequences of this both for the companies involved and their workforce. This is done by examining particular merger or acquisition cases in the different EU Member States that have occurred in recent years and considering these various aspects.

This report is available in electronic format only.
The concern, therefore, is broadly threefold. First, it relates to the effect of the merger on the companies involved, in terms of:

- the underlying reasons for the action taken by the companies;
- the policy followed in the aftermath of their operations being merged, or at least controlled by the new entity;
- the longer-term outcome, to see how far the initial expectations and the plans formulated were realised in practice, thus justifying, from the business perspective, at least the initial decision to merge.

Secondly, the effect on employees is of concern, in terms of:

- the extent to which the merger was accompanied by job losses because of the rationalisation of operations or a concentration of activities on particular markets;
- the extent to which employee representatives were involved in the decisions leading up to the merger and/or were consulted regarding the consequences for the workforce;
- the actions taken by the company to alleviate the effect of job losses on employees;
- how far the merger led ultimately to business expansion because of a strengthening of the operation concerned and the creation of additional jobs.

Thirdly, the wider effects on the economy are of concern, with regard to the extent to which the merger led to an improvement of the performance of the sector concerned in the country, or region, in question, and how far this benefited the national or local economy.

The latter issue, it should be noted, is more difficult to explain because, although large in most instances, the cases considered are not typically of a size that they account for a significant part of output and employment in the country or region in which they take place. Nevertheless, one or two cases fall into this category.

One point to emphasise at the outset is that, while the company cases reviewed in this report cover a relatively wide range of circumstances and many different sectors of economic activity, they cannot claim to be representative of the mergers that have occurred across the EU in recent years or of the outcomes either for the companies involved or for employees. The instructions given to the national correspondents responsible for selecting a particular merger in their country as a case study for addressing the various aspects listed above were relatively open-ended. Guidelines stated that:

> The case concerned should be relatively large ... and, if possible, ... a case that is especially interesting and/or which attracted attention at the time for various possible reasons – because, for example, it involved the takeover of a major domestic company by a foreign-owned one, because of its size, because it was contested or perhaps because of all of these reasons and more.

The correspondents were not asked, therefore, to choose a case that was in some sense representative or illustrative of the features and effects of the mergers that have taken place in their country over the recent past. Nevertheless, the case studies are both of interest in themselves and have a number of points in common that are indicative of more general issues. At the very least, they demonstrate that mergers can be an important means of improving the efficiency of particular sectors of economic activity in different countries and of safeguarding employment or even of expanding jobs. At the same time, however, they raise awkward questions about their effect on competition and efficiency in the long-run and about the process of globalisation and the role of national authorities in relation to this. They also focus attention on the stability of employment, and the scope for social responsibility, in a global economy where an increasing number of markets are dominated by a relatively small number of large multinational enterprises.
Outline of report
The main points to emerge from the company cases studies, which cover 25 EU countries plus Norway, are summarised in the sections below in terms of the features of the mergers or acquisitions covered and their consequences for both the companies involved and their employees, as well as for the wider economy.

Finally, the individual case studies presented at the end give more details of the companies concerned, their size in terms of employment and nationality – that is, to what extent foreign-owned companies were involved compared with domestic ones – their sector of activity and a brief review of developments leading up to the merger. They also describe briefly the various aspects listed above in relation to the mergers in question from the perspective of the companies and employees concerned, as well as of the wider economy. This includes the reasons for the merger, the policy followed after the event, the workers affected and the extent to which they were consulted.

Main reasons for mergers
The case studies illustrate the fact that mergers can occur for a variety of reasons, involve companies in different circumstances and be initiated by companies looking to be taken over as well as those seeking to expand or strengthen their financial and/or market position by taking over another company.

Privatisation cases
The cases reviewed, therefore, cover a number of acquisitions of previously state-owned companies in the new EU Member States (NMS) that were effectively initiated by the government of the country in question in order to privatisate the business. The motivation in this regard is generally to find a suitable, usually foreign-owned, company to take over the company in question in order to develop its potential, to modernise its working methods, to invest in new plants and equipment, to redesign the product range and to extend its markets. This was the case, in particular, in respect of the privatisation of Slovak Power Plants (Slovenské elektrárne, a.s., SE), an electricity generating company in Slovakia, Mažeikių Nafta (MN), a state oil company in Lithuania, Automobile Dacia, a car manufacturer in Romania, Maltacom, the state-owned telephone company in Malta, and Budapest Airport in Hungary. In the last two cases, an additional reason for privatisation was a concern to reduce the public sector borrowing requirement through the money received from the sale of the companies.

Such privatisation exercises, however, do not always proceed as planned. In the case of Budapest Airport, therefore, the British airport operating company BAA, to which the sale was made, took virtually no action to develop or expand the facility in the 18 months following the acquisition and subsequently sold its shareholding in the airport to the German HOCHTIEF Group, one of the largest construction companies in the world. HOCHTIEF has since started a development programme, having previously – after six months – sold off the ground handling services to the Turkish company Celebi Ground Handling (Çelebi Hava Servisi).

Similarly, in the case of SE in Slovakia, the government sold off 66% of its shareholding in the expectation that the remaining 34% would enable it to exercise a measure of control over the subsequent policy followed by the Italian energy group Enel, only to discover subsequently that it would actually need a 35% holding for this. As it happened, however, the company under its new ownership, although it has rationalised operations and reduced the workforce substantially – a policy initiated when the company was in state hands – has also markedly increased efficiency.

In Malta, the sale of Maltacom to Emirates International Telecommunications (EIT), a government-owned joint venture in Dubai, has resulted in both an improvement in the efficiency of the company – now called GO plc – and the development of a new information technology (IT) village designed to host top international IT companies, which was part of the deal.

In Lithuania, the sale of the state-owned oil company MN differed from most other privatisation cases in the NMS in that the purchaser was a company from another new EU Member State, namely the Polish company PKN Orlen, which has since become the largest oil refiner in central and eastern
Europe. The sale, however, has resulted in the modernisation of the MN refinery and the strengthening of the oil sector in Lithuania.

In Romania, the sale of Dacia to the French car manufacturing company Renault has perhaps had the most pronounced effect in strengthening the domestic sector. It has, therefore, resulted in the design and quality of the cars produced improving dramatically, extensive training of staff, an enhanced sales network and a doubling of car production in three years. Apart from this, however, it has stimulated increased inflows of foreign direct investment across the whole car industry in the country, contributed considerably to net exports and, accordingly, boosted Romania’s growth performance and real income levels.

The Irish case, which can be included under this heading, was somewhat different from other cases. It involved the Trustee Savings Bank (TSB), which was state-owned but a viable and financially-sound enterprise, being acquired by Irish Life and Permanent, which was itself publicly owned in the past. Although the acquisition led to some rationalisation of operations and initial job losses, like the other cases outlined above, it also led to significant job creation in the long-term as the new business under the name Permanent TSB was expanded.

Cases of companies saved by merger

In practice, most of the privatisation cases involved enterprises in the NMS that would not have survived, or would have struggled to do so, without being taken over by a company with an established presence in the sector in question and, accordingly, with both the technical and market knowledge to be able to develop the business. At the same time, the companies purchasing other enterprises saw gains for themselves in expanding their operations in the national market concerned and beyond. Other cases exist that did not involve privatisation as such but are much the same in that they concern companies that were threatened with closure until being taken over.

A closely-related case, therefore, although not strictly one of privatisation, is that of Saturnus Avtooprema (SA), a Slovenian manufacturer of headlights and fog lights for cars, which lost its protected market position in the early 1990s and gradually lost its traditional customers in subsequent years. The only way to survive was through some form of alliance with a stronger and larger company, which in practice led it to merge with – or be acquired by – the German company Hella, which operates in the same industry. Hella was already supplying technology and know-how and was looking for low-cost means of manufacturing for the neighbouring Italian market – or more precisely to become a supplier to the Italian car manufacturer Fiat.

A number of the other cases also involve a company that is insolvent, or close to becoming insolvent, being taken over by a stronger company, thus enabling the former company to remain in business rather than closing, as would happen in an apocryphal competitive market, and the latter company to expand its operations. Jobs are maintained, or more precisely fewer jobs are lost, and the prospect emerges of increases in the efficiency of the sector concerned if production techniques and ways of working are transferred from the stronger company to the weaker one. Accordingly, in this scenario, there seem to be only winners and no losers. Although competition in the sector concerned might decline, the longer-term effects of this on efficiency tend to be intangible and difficult to identify. On the other hand, as noted at the outset, competition in some sectors is more likely to increase than to decline as a result of a merger because of the nature of competition and its focus on quality and innovation in addition to price.

The Czech Republic case is similar to the Slovenian one, except that it involves an insurance company rather than an automotive enterprise. In this case, Česká podnikatelská pojišťovna (CPP), the eighth largest insurance company in the country and under the financial supervision of the Czech Ministry of Finance (Ministerstvo financí ČR, MF ČR) because of the losses suffered as a result of the floods in 2004, was taken over by Kooperativa pojišťovna, a.s., a subsidiary of Vienna Insurance Group (VIG), the largest Austrian insurance company. No major changes occurred in the company’s activities and the company name was retained, but as a result of its increased financial strength and more effective management, it expanded its market share and increased its workforce by some 40% between 2004 and 2007.
The Austrian case is also similar, although the company taken over, Austria Frost, a food processing company specialising in instant meals and deep-frozen desserts, had actually gone bankrupt and was about to close down completely when it was rescued by the German frozen food manufacturer Frenzel, which was looking to extend its range of products. In this case, the takeover not only saved jobs – despite some being lost initially through a streamlining of operations, employment expanded later as new product lines were developed – but also maintained the income of local farmers who were dependent on the company for most of their sales. Nevertheless, the continued survival and growth of the company and the jobs and incomes dependent on it remain uncertain.

The Swedish case involves much larger companies but much the same underlying motivations. In this case, Ericsson, the leading manufacturer of telecommunications equipment, took over Marconi, a British electronics company, which had experienced financial problems for a number of years and had recently gone through a downsizing process involving 800 redundancies. These problems made the Marconi company a target for takeover and the only real question that remained related to the identity of the company concerned and how far the existing operation could be maintained. In fact, although the takeover was followed by further large-scale job losses (of about 1,000 redundancies), the two businesses were reasonably complimentary in terms of their areas of specialisation and the merger has led to the growth of both. In the case of Ericsson, it completed further acquisitions in related areas, including two communications companies in the United States (US), a Norwegian television company and a German software company.

By contrast, the Luxembourg case concerns two much smaller companies in a more traditional industry, the manufacture of vinyl flooring. This case again involved a plant in danger of closure operated by the French company Tarkett and a company seeking to expand in the market concerned – namely the Belgian manufacturer IVC. In this case, no rationalisation of production and no loss of jobs occurred. In fact, in the longer term, additional jobs have been created.

**Cases of merger to expand market share**

Most if not all of the cases noted above involve companies seeking to expand their market share through acquisition rather than internal growth and taking over companies in difficulty. As such, both sides benefited from the move. The cases reviewed in this section, however, also include those where neither company was necessarily in danger of closing but both could see advantages in merging and either strengthening their market position or extending their activities into other areas, to the mutual benefit of both businesses.

In some cases, the aim of merging was to strengthen the position of both companies in relation to a dominant company in the market. This was the case for Neuf Telecom and Cegetel, two of the smaller telecommunications companies in France, which had both been in relatively weak financial positions but were both subsidiaries of large multinational groups – Louis Dreyfus, a large French private holding company, in the case of Neuf Telecom, and Vivendi and Vodafone in the case of Cegetel. By pooling their resources and know-how, both companies have since gained the financial and technological strength to compete in the French market with France Telecom and Free, the largest internet service providers in the country.

In the Cyprus case, the three companies involved in the merger to create Marfin Popular Bank – Laiki Bank in Cyprus as well as Egnatia Bank and the Marfin Financial Group in Greece – also saw mutual benefits in pooling their resources and efforts in order to facilitate expansion not only in the Cypriot and Greek markets but also in the wider banking and financial market in the Balkan states and southeastern Europe.

The merger has succeeded in increasing the growth of the business, the market share of the new company in the region and its profitability. This growth has also resulted in intensifying competition in the banking market, creating pressure on other banks to expand in the same way and leading to further rounds of merger activity. Competition, in other words, has come, in part, to take the form of growth through acquisitions.

The Polish case provides an example of a company seeking to exploit its existing resources more fully through merger. In this case, therefore, Bauer Publishing, a German newspaper and periodical publisher and owner of a radio station, acquired Interia.pl, a Polish web portal provider, as a means of

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expanding its multimedia activities and exploiting the opportunities offered by the internet to make additional use of the output from its other media. As a result, Bauer has not only succeeded in expanding its activities but Interia.pl has also been able to offer a wider range of material on its website and accordingly has expanded its market share. At the same time, following the merger, Bauer has become one of the leading players in the media market, putting pressure, as in Cyprus, on other companies to pursue a similar strategy.

In the German case, the acquisition by chemical giant Bayer of the German pharmaceutical company Schering was intended to expand its market share of the pharmaceutical and consumer health product markets as well as to increase its R&D capacity, while for Schering the main motivation was to avoid a hostile takeover bid from the pharmaceutical company Merck. The strategy seems to have succeeded insofar as Bayer has been able to regain its position in the top 10 global pharmaceutical companies while reducing its costs substantially and streamlining its research activities.

The Estonian case is somewhat different in that it involves a Swiss investment company, Sorbes AG, expanding its existing shareholding in Repo Vabrikud, an Estonian manufacturer of melamine-faced chipboard, to acquire complete ownership. With this move, Sorbes aimed to gain the maximum return from its planned investment to expand the company’s production. Although the concentration of production on a particular section of the market meant the closure of a factory producing hardboard and the resulting loss of 150 jobs, the investment has led to the company’s profitability increasing and to it becoming the biggest producer of melamine-faced chipboard in the Baltic region and one of the biggest exporters in Estonia. While this growth has not been accompanied by job creation, it has safeguarded the remaining jobs and generated valuable income for the local as well as national economy.

The Bulgarian case is different again but with much the same outcome in terms of business. In this case, UniCredito SpA, an Italian company and the largest banking group in central and eastern Europe, consolidated its activities by merging two of its subsidiaries in Bulgaria, HVB Bank Biochim and Hebros Bank, with a third bank, Bulbank, to form UniCredit Bulbank. While the merger led to rationalisation of operations, with about 300 job losses, it has created the biggest and most profitable bank in Bulgaria, which has significantly increased its share of the lending market since the merger. Nevertheless, as in other cases, few signs are evident that the merger has reduced the degree of competition in the sector, although it may have created pressure on other banks to expand through external rather than internal means.

The Norwegian case is the only one involving a merger between two state-owned oil companies, namely Statoil and Norsk Hydro ASA, to form StatoilHydro ASA. The reason for the merger, however, was much the same as in the other cases – to create a more efficient and financially stronger organisation to increase its share of the domestic and global markets. In this case, however, the merger led to the creation of the largest deep-sea oil and gas producer in the world and the largest enterprise in any sector in the Nordic region. Nevertheless, the companies involved considered that the company needed to be of this size to compete with large US and other European oil producers in global markets, especially given the gradual depletion of North Sea oil and gas reserves and the corresponding importance of expanding operations outside Norway. At the same time, the merger has inevitably led to a duplication of activities and to large-scale job losses as a result of rationalisation of operations.

In the UK case, the merger of Boots, the British manufacturer and retailer of pharmaceuticals and beauty products, with Alliance UniChem, the French wholesaler of such products, formed the new company Alliance Boots. The purpose of the merger was to realise the benefits of a larger scale of operations and to widen the product range. Although the merger resulted in rationalisation of administration in particular and job losses as a result, it also led to the expansion of the merged company’s international business.

The subsequent takeover of the company by Kohlberg Kravis Roberts, a New York-based private equity company, which specialises in acquiring companies that are underperforming, suggests, however, that the merger had not led to a sufficient increase in profitability. The concern after the latest acquisition is that the new owner’s focus on short-term profits will see further rationalisation of
operations and a possible reduction in the Boots chain of retail chemist outlets as well as in R&D activity.

**Cases of acquisition**

Most of the cases listed above concern takeovers rather than mergers as such, in the sense that effectively one company purchased the assets of another. They generally, however, involved both parties to the transaction considering the move beneficial, with often the company taken over continuing to operate as a separate entity. The other cases are more traditional examples of takeovers, with one company acquiring another and integrating it into its own operations.

The latter applies in the Greek and Portuguese cases, which are similar in that a domestic company or group took over the subsidiary of a large multinational company in the country – in the Greek case, the **Mytilineos Group** of metal producers acquired **Aluminium de Grèce**, the leading Greek producer of aluminium and a member of the **Alcan** group, a leading multinational industrial group operating in the aluminium and packaging market, as well as in aluminium recycling; in the Portuguese case, **Sonae Distribuição**, taking over **Carrefour Portugal**, the chain of hypermarkets operated in the country by the French Carrefour group. In both cases, there was relatively little effect on employment as the operation remained much the same after the acquisition as before.

This type of takeover also applies in the Italian case of **ABB**, a large Swiss multinational operating in the electromechanical industry, acquiring **Elsag Bailey**, an electrical engineering company, from the **Iri-Finmeccanica** group owned by the Italian state. Although in this case, an element of privatisation was also involved. The acquisition led to ABB becoming the leader in a number of market segments, including automated systems for electricity substations. Although the takeover initially led to the closure of a plant and the loss of 200 jobs, in the longer term, it has resulted in business expansion and net job creation.

The traditional example of a takeover again applies in the Finnish case of the Tallink Finland Oy shipping company, a subsidiary of the Estonian **AS Tallink Group**, a major operator of ferry and cruise ships in the Baltic Sea, acquiring the **Silja Oy Ab** company, owned by the Bermuda-registered **Sea Containers Ltd**. The new company was renamed **Tallink Silja Oy**. In this case, however, the acquisition was followed by substantial rationalisation of operations, particularly administrative and booking activities, which led to large-scale job losses. While the company’s share of the passenger shipping market in the region has expanded, therefore, employment in the sector has declined and with it, to some extent, competition, with some signs of a deterioration in services.

The remaining two cases both involve contested acquisitions where the company taken over was initially opposed to the merger. The first involves the Belgian case of **Mittal Steel**, the large Indian-owned steel company, taking over **Arcelor**, a Luxembourg-based steel company with plants in France and Spain as well as Belgium, to form **ArcelorMittal**. In this case, contrary to the norm, the acquisition in Belgium has been followed by a reversal of Arcelor’s decision to close the Seraing blast furnace in Liège in the Wallonia region of the country and the reopening of the plant together with the suspension of plans to shift steel production from other plants in the Liège region to coastal regions until 2012 at least. This move by Mittal, which resulted from pressure from both the trade unions and local authorities together with developments in the steel industry, has provided a breathing space for the authorities in the region to implement policies for stimulating other forms of economic activity to replace the jobs in steel operations that remain vulnerable in the long run.

The final case is the takeover of the Dutch bank **ABN AMRO** by a consortium comprising the **Royal Bank of Scotland** (RBS), the Belgian-Dutch bank **Fortis** and **Banco Santander** of Spain. In this case, the Dutch bank had been underperforming for some time and was, therefore, vulnerable to a takeover bid. The only real question is this regard, as in the case of Marconi above, regarded identification of the purchaser and the state of the bank’s operations after the event. As it turned out, the management’s preferred purchaser, **Barclays** bank in the UK, with which it had agreed how the business would be reorganised once the acquisition was completed, was unable to match the price offered by the RBS-led consortium. The latter group had planned to divide between themselves the bank’s various activities in different parts of the world.
However, in the meantime, the ongoing global financial crisis has hit RBS and Fortis particularly hard. RBS, therefore, has been nationalised by the UK government, while Fortis has had the Dutch part of its business nationalised and the Belgian part taken over by the French bank Paribas. As a result, ABN AMRO continues to operate under its own name, since the integration of its retail banking operations with Fortis had not occurred.

Effects on employment

As indicated above, the effects on employment of the mergers or acquisitions reviewed in the different countries vary from case to case. In many instances, they have resulted in job losses, sometimes on a large scale. This was the case as a result of the Bayer acquisition of Schering where, because of the scale of the companies involved and the scope for rationalisation, about 5,350 jobs were planned to be cut, some 3,150 of them in Europe. This prompted the German Chancellor to request the company to minimise job losses in Germany. Furthermore, in the case of the Statoil-Norsk Hydro merger in Norway, planned redundancies affected almost 3,500 jobs.

Reductions in employment tend to be frequent occurrences following mergers, especially if they involve companies in the same industry. In this case, there is usually scope for rationalisation and the elimination of duplicate functions being performed, particularly in respect of administration, where the operations of the two businesses can, if they are combined, be supported in most cases by fewer staff than employed by the two companies separately. Similarly, the scope for rationalisation has typically been significant in most privatisation cases in the NMS, where the enterprises concerned were using inefficient production techniques and outdated production plants and equipment. In both cases, subsequent expansion of the business could occur without a parallel increase in the workforce.

The importance of mergers, and the associated rationalisation of operations, as a source of job losses is confirmed by an analysis of the cases reported in the European Restructuring Monitor (ERM) over the period 2002–2007. Of the approximately 3.7 million job losses announced as a result of restructuring, some 6.5%, or about 240,000 jobs, arose from cases where mergers or acquisitions were involved. Moreover, the relative importance of mergers as a cause of job losses was more significant in the last two years of the period referred to than the first four years, amounting to 11% in 2006 and about 10% in 2007 (see table below).

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Source: Author's estimates based on cases reported in the ERM

The cases reviewed, however, also demonstrate that not all mergers lead to job losses even in their immediate aftermath. This was the case, in particular, in respect of the Greek and Portuguese cases, where the merger concerned involved a change in ownership without any substantial change in business operations. It was also the case in instances where the merger involved companies extending their activities into other areas of activity and taking advantage of the fact that their operations complemented each other and the opportunities for making better use of their resources or exploiting the output from other parts of business. For example, this occurred in the Polish case of a publishing company merging with an internet portal provider.

In addition, the cases equally indicate that, while mergers might result in initial job losses, the strengthening of the business and of the financial and market position of the enlarged company can result in the growth of jobs in the long term. This is the case, for example, in respect of the merger between insurance companies in the Czech Republic, where employment increased by 40%, or the ABB acquisition of Elsag Bailey in Italy. It was also the case in Ireland with the merger of TSB and Irish Permanent where employment is now some 30% higher than at the time of the merger, despite initial job losses.
Even where jobs in the merged company are lost, however, the ones remaining tend to be more stable and less vulnerable than they were previously because of the company’s increased economic strength. In a number of cases, this has also had wider beneficial effects on the local or even national economy, such as in respect of Renault’s takeover of Dacia in Romania or the expansion of melamine-faced chipboard production in Estonia.

It should also be noted that where job losses have occurred, they have in many cases been achieved by voluntary redundancies or early retirement, often under relatively generous terms, rather than by compulsory redundancies. This was even true in the case of the Statoil merger with Norsk Hydro, where substantial job cuts have occurred but where nobody has so far been faced with compulsory redundancy.

Few cases occur where the terms and conditions of employment worsened as a result of the merger, such as in respect of Tallink’s acquisition of Silja Oy Ab in Finland. However, according to the trade unions (although not the management), in the great majority of cases, employment terms and conditions seem to have remained much the same after the acquisition as before – in some cases, with companies taking special care not to antagonise employees when rationalisation measures are underway or planned.

Consultation and involvement of trade unions

The cases reviewed seem to indicate that, more generally, trade unions or employee representatives are only rarely involved in the decision-making process leading up to a merger or acquisition. They are only slightly more frequently involved in the decisions taken over the rationalisation of operations resulting from a merger and the jobs that are to be cut. Although consultation with trade unions or employee representatives occurs more often, it is still by no means the norm in such cases across Europe.

In the cases in Greece, Luxembourg and Portugal, therefore, workers’ representatives were merely informed about the merger rather than being consulted, while in Poland, no trade unions or work councils existed to consult in either of the two companies involved in the merger. In the Czech Republic, although worker representatives have been appointed in the insurance companies concerned, they do not seem to have been consulted at all, which also applies in the Estonian case. In Austria, the decision to sell Austria Frost to a German company due to insolvency was made by the official receiver without the need for consultation. In Malta, the trade union was not consulted about the privatisation of Maltacom because it had previously been opposed to privatisation. In addition, in Ireland, the stock exchange rules over secrecy concerning the sale of the state-owned bank TSB restricted the extent of consultation, while in Norway a similar situation unfolded concerning the merger of two state-owned oil companies where only few people were involved in the process leading up to the decision. After the event, however, trade unions were closely involved in the decisions over rationalisation of operations and how job cuts should be implemented.

In Cyprus, interestingly, the trade unions were neither consulted nor informed about the merger, which provoked criticism from the Cyprus Union of Bank Employees (Ενωση Τραπεζικών Υπαλλήλων Κύπρου, ETYK), which led to the establishment of European Works Councils (EWCs) in the country’s three main banks. ETYK also applied to set up EWCs in three Greek banks operating in Cyprus, which was a novel move.

In Hungary, after the Budapest Airport Works Council had successfully challenged successive attempts to privatise the facility in the Labour Court because it had not been consulted beforehand, the authorities took extra care to involve employee representatives in subsequent negotiations with potential buyers, although this simply meant being formally consulted.

In some countries, however, legislation requires employee representatives to be consulted in privatisation cases, as in Slovakia or Slovenia. Legislation on consultation also exists in the Netherlands, in the form of the Social and Economic Council (Sociaal Economische Raad, SER) merger code, so that the central works council in ABN AMRO was, accordingly, consulted at an early stage and was continuously involved in the process leading up to the acquisition.

In Germany, co-determination rights meant that representatives of the German Mining, Chemicals and Energy Industrial Union (Industriegewerkschaft Bergbau, Chemie, Energie, IG BCE) had a place
on the board of Schering and, like other board members, were informed before the decision to merge was made and the works council was also consulted.

In Italy, the trade unions were informed by ABB about the acquisition of Elsag Bailey, as were the EWCs in its plants. Moreover, ABB was subject to the so-called ‘Prodi protocol’, under which it was required to keep employment levels unchanged for the first five years following the acquisition, unless a specific agreement could be made with trade unions over job cuts.

In Finland, in compliance with legislation, trade unions were both consulted over the merger of the shipping companies and were involved in the process of rationalising operations after the merger. Negotiations also covered the provision of support for those losing their jobs, as required also by legislation.

List of company case studies

Belgium: Arcelor and Mittal Steel
Bulgaria: HVB Bank Biochim, Hebros Bank and Bulbank
Czech Republic: Kooperativa pojišťovna, a.s. and Česká podnikatelská pojišťovna, a.s.
Germany: Bayer and Schering
Estonia: Swiss investment company Sorbes AG and Repo Vabrikud
Ireland: Irish Life and Permanent and Trustee Savings Bank
Greece: Aluminium de Grèce and Mytilineos Group
France: Neuf Telecom and Cegetel
Italy: ABB and Elsag Bailey
Cyprus: Laiki Bank and Egnatia Bank and Marfin Financial Group
Latvia: Tapeks and Aile
Lithuania: PKN Orlen and Mažeikių Nafta
Luxembourg: Tarkett and IVC
Hungary: Budapest Airport Rt and BAA/Celebi Ground Handling Inc./HOCHTIEF AirPort
Malta: Emirates International Telecommunications Malta Ltd and Maltacom PLC
The Netherlands: ABN AMRO and Royal Bank of Scotland/Fortis/Banco Santander
Austria: Austria Frost and Frenzel
Poland: Bauer Publishing and Interia.pl
Portugal: Sonae Distribuição, SGPS, S.A. and Carrefour
Romania: Renault and Automobile Dacia
Slovenia: Saturnus Avtooprema and Hella
Slovakia: Slovenské elektrárne, a.s. and Enel
Finland: Tallink Finland Oy and Silja Oy Ab
Sweden: Ericsson and Marconi
UK: Boots and Alliance UniChem
Norway: Statoil and Norsk Hydro

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Individual case studies

Belgium: Arcelor and Mittal Steel

In January 2006, Mittal Steel, the Indian-owned steel multinational, launched a bid for Arcelor, the steel company formed several years earlier by the merger of Usinor in France, Arbed in Luxembourg and Aceralia in Spain. In June 2006, the companies reached agreement on the terms of the takeover and by the end of July Mittal had acquired a 92% share in Arcelor. In all, Mittal paid some €27 billion, partly in shares and cash.

At the time of the merger, Arcelor was the second largest steel manufacturer in the world employing in the region of 13,000 people in Belgium, 78,000 in Europe and 96,000 worldwide, while Mittal, the largest producer in long steel, employed 220,000 people in its plants around the world. After the takeover, in 2007, the merged group ArcelorMittal had a total of 310,000 employees worldwide.

Reasons for merger

The motivation behind the takeover was essentially to give Mittal more control over the steel market, to expand its size to three times that of its nearest competitor Nippon Steel Corporation and to increase its bargaining power in relation to customers. At the same time, the purchase gave Mittal a significantly increased presence in western Europe, one of its weaker markets, and strengthened its product range in the long steel end of the market, where Arcelor was the leading producer, as well as giving it access to Arcelor’s technical know-how and R&D centres.

The bid was initially contested by Arcelor, supported by the French and Luxembourg governments which were opposed to the takeover, as was the Belgian government but much less so. The French and Spanish trade unions as well as the European Metalworkers’ Federation (EMF) were also strongly opposed to the bid, fearing substantial job losses as a result of restructuring. The various Belgian trade unions were less hostile since Arcelor had already decided to close the Seraing blast furnace in Liège. The trade unions involved included: the Confederation of Christian Trade Unions (Confédération des Syndicats Chrétiens/Algemeen Christelijk Vakverbond, CSC/ACV), the Federation of Liberal Trade Unions of Belgium (Centrale Générale des Syndicats Libéraux de Belgique/Algemene Centrale der Liberale Vakbonden van België, CGSLB/ACLVB) and the Belgian General Confederation of Labour (Fédération Générale du Travail de Belgique/Algemeen Belgisch Vakverbond, FGTB/ABVV).

Although Mittal had expanded through a series of takeovers over the preceding 25 years, the companies acquired were generally underperforming ones. Arcelor was different in this respect as it was relatively profitable and not in financial difficulty.

Involvement of trade unions/employee representatives

Focusing on the situation in Belgium, Arcelor informed its workforce about the bid through the European Works Council. Mittal undertook to honour collective agreements concluded by the Belgian trade unions with Arcelor in 2003 so that workers could expect to be in a similar position if the takeover went ahead. After the merger, a committee was set up in order for trade unions to meet with top management. As a result, the unions prepared a report to demonstrate the efficiency of the Seraing plant and argue against its closure.

Effects on employment

Mittal initially undertook to maintain the Arcelor strategy in Belgium of shifting production to coastal plants and closing the ‘hot phase’ and blast furnaces in the Liège region by 2009, involving direct job losses of about 2,700 and some 2,280 jobs from the closure of ‘cold phase’ plants, with many more indirect job losses.

Developments in the steel industry and pressure from trade unions and the Walloon regional government led Mittal to reassess the case for closing the plants. In 2008, it agreed to reopen a blast furnace closed in 2005 at a site in Seraing and to maintain ‘hot phase’ production up until 2012, the
expressed aim being to keep steel-making in Belgium for as long as possible by developing new techniques. The jobs to be lost were therefore maintained and 180 new jobs were created. At the same time, terms and conditions of employment have been maintained, as initially agreed by Mittal.

**Outcome for company**

The takeover was successful in meeting Mittal’s objectives of strengthening its global position in the industry. Since the takeover, the company has acquired a number of other steel companies around the world in countries like Austria, Estonia, Italy, Mexico, Slovakia, Turkey, the UK and Uruguay.

**Wider consequences**

The decision to reopen the blast furnace in Seraing and maintain production elsewhere has given local authorities more time to develop plans for diversifying the local economy. However, an acute shortage of jobs has been recorded in the region, with unemployment at 20% in Seraing. Therefore, major changes need to occur before 2012 if those in danger of losing their jobs once the present agreement comes to an end are to have a reasonable chance of finding new positions.

**Sources**


Interview with Jean-Luc Rader, Belgian General Federation of Labour – Metal section (FGTB Métal), Liège, 30 June 2008.

**Bulgaria: HVB Bank Biochim, Hebros Bank and Bulbank**

In April 2007, HVB Bank Biochim and Hebros Bank were merged with Bulbank, all of which are owned by UniCredito SpA, the largest bank in central and eastern Europe. The latter effectively consolidated its banking operations in Bulgaria through the merger. The expanded company was renamed UniCredit Bulbank. Bulbank had been privatised in 2000 and acquired by UniCredito Italiano SpA and **Allianz AG**, the German bank which held only 5% of the shares. HVB Bank Biochim was part of Bank Austria (**Bank Austria Creditanstalt**, BA-CA), the largest Austrian banking group and itself part of **HypoVereinsbank** (HVB), the second largest German retail bank, which was purchased by UniCredito in 2005. Hebros Bank was established in 1993 from the merger of eight Bulgarian commercial banks and was acquired by Regent Group Limited, an investment management company based in the Cayman Islands before being purchased by UniCredito.

At the time, Bulbank had about 2,000 employees, HVB Bank Biochim some 1,400 workers and Hebros Bank around 800. UniCredito at present employs almost 180,000 workers in various countries.

**Reasons for merger**

The main purpose of the merger was to rationalise the operations of the three banks, to unite their activities and to achieve a large market share as a result, as well as to establish a joint modern information system and e-banking facilities.

**Involvement of trade unions/employee representatives**

The trade unions representing the staff of the three banks had little involvement in the decision-making process leading up to the merger. They were, however, informed of the intention to merge over a year before the merger actually took place and were generally in favour of it going ahead.

**Effects on employment**

The merger was intended to lead to the rationalisation of activities and operations of the three banks. In total, 300 jobs would be cut within two years of the merger occurring.
The job losses were to be achieved in various ways – through natural wastage, voluntary redundancy and early retirement – without recourse to compulsory redundancies. The main job losses would involve low-qualified staff, on the one hand, and top management, on the other. In reality, low-qualified workers would be unable to meet the new requirement for a high level of technical know-how, while consolidation meant that fewer management posts would be required.

The various terms and conditions of employment were harmonised following the merger, based on the best practices of the three companies, although this did not result in major changes.

Expansion of employment was not explicitly planned but the market for banking and financial services is growing, which is leading to the creation of new jobs in the sector, particularly jobs which tend to require relatively high-level qualifications.

**Outcome for company**

The strategy followed by the company since the merger has been in line with that planned beforehand. UniCredit Bulbank is now the most profitable and biggest bank in Bulgaria in terms of its equity value and has continuously increased its share of the lending market.

The merger does not seem to have reduced the degree of competition in the banking sector, which remains as intense as it was beforehand.

**Czech Republic: Kooperativa pojišťovna, a.s. and Česká podnikatelská pojišťovna, a.s.**

In July 2005, Kooperativa, part of VIG, the largest Austrian insurance company, announced its intention to acquire ČPP, the eighth largest insurance company in the Czech Republic, based in Prague. The acquisition was completed in July of the same year. At the time of the acquisition, ČPP employed some 650 people, while Kooperativa employed about 3,600 workers and VIG 16,340 employees.

**Reasons for merger**

The aim of the takeover was to gain a competitive advantage in the Czech insurance market, as well as achieving savings through cooperation and rationalisation of activities, according to the Chief Executive Officer (CEO) of Kooperativa, Vladimír Mráz. Kooperativa, the second largest Czech insurance company, in line with the policy of VIG, had already purchased a number of other insurance companies in the country, as well as in other parts of central and eastern Europe. For instance, on the same day as it acquired ČPP, VIG took over the fourth largest Romanian insurance company.

ČPP had been in financial difficulties before the takeover following the serious floods in the Czech Republic in 2002. Since mid August 2004, the company had been under the special supervision of the Czech Ministry of Finance (MF ČR).

After the takeover, the two companies continued to operate as separate entities and were allowed to compete for customers. The long-term objective of VIG was to expand its Czech operations; therefore, it was indifferent which of the two companies experienced the most growth.

**Involvement of trade unions/employee representatives**

No evidence is available that employees or their representatives were consulted before the takeover took place or that they were involved in any way in the decision or its implementation.

**Effects on employment**

At the time of the takeover, it was estimated that the number of employees in the merged company would be reduced by about 100 as a result of the planned rationalisation of operations, although no clear idea was apparent about where job losses would occur.

As a result of the company’s growth (see next section), the anticipated reduction in employment in ČPP did not occur. At the end of 2005, a few months after the merger, the number of employees was
slightly higher than before, while by the end of 2007, it had risen to 938 workers, over 40% higher than in 2004.

At the same time, no major changes have occurred in the terms and conditions of employment in ČPP following the takeover.

**Outcome for company**

It became apparent at the time of the takeover that the new owner did not have a detailed strategy to follow in the aftermath of the event – according to the company, the acquisition was made too quickly to allow for the creation of such a forward-looking strategy. However, some plans were formed, especially in terms of expanding ČPP’s registered capital threefold to emphasise its financial strength and its ability to meet its long-term liabilities. Other plans by the company included retaining ČPP’s position in the motor insurance market and not to change its name. No major changes occurred in the company’s management structure.

As it turned out, the two companies’ financial performance has been, if anything, better than anticipated and, in 2007, the two together achieved an increase in turnover of 6% and a growth in profits before tax of 26%.

**Germany: Bayer and Schering**

In March 2006, the German pharmaceutical company Bayer announced plans to take over the German pharmaceutical company Schering, with production plants in Asia, Europe, Latin America and the US and with R&D facilities in Europe, Japan and the US. The purchase was eventually completed in 2008 to form Bayer-Schering Pharma after agreement from the US authorities and the European Commission. Although the companies are both in the same industry, the fields in which they specialise and carry out research tend to differ.

At the time of the announcement, Bayer employed some 82,600 people worldwide, while Schering had a global workforce of about 25,000 people. The purchase of Schering for a sum of €16.3 billion was financed in part by the sale of two Bayer subsidiaries – H.C.Starck and Wolff Walsrode.

**Reasons for merger**

Schering agreed to the acquisition in order to prevent an unfriendly takeover by the German pharmaceutical company Merck. For Bayer, the takeover was intended to expand the company’s market share in pharmaceutical and consumer health products and to put the company back on the list of the top 10 pharmaceutical companies in the world, as well as to increase its R&D capacity.

**Involvement of trade unions/employee representatives**

Due to co-determination rights, representatives of IG BCE had a place on the board of Schering. Like other board members, they were informed before the decision on the takeover was made and voted in favour of the merger. The works council was also consulted but was not involved in the decision-making process.

**Effects on employment**

The reason behind the merger was to enable the R&D activities of the two companies to be rationalised at the global level and concentrate them in three main sites, namely in Berlin in northeastern Germany, Wuppertal in western Germany and Berkeley in the USA, while closing plants in West Haven and in a subsidiary of Schering in Richmond in the US. It was also planned to close a manufacturing plant in Indiana in the US and one in Filago in northern Italy and to reduce administrative costs by merging functions and shedding jobs at Schering’s headquarters in Berlin in Germany.

According to the CEO of Bayer, Werner Wenning, in March 2006, although no precise plans were made regarding job cuts, experience of other mergers indicated possible job losses of about 10% of the workforce. The expectation was that some 6,000 jobs would be lost globally, which led German Chancellor Angela Merkel to intervene and ask Bayer not to cut jobs in Germany.

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A year after the announcement, according to a press release on 6 March 2007, it was decided that employment was to be reduced by 3,150 jobs in Europe, 1,000 in the US, 750 in Asia and 1,200 in Latin America and Canada by the end of 2009. Of these, 1,400 jobs would be in global R&D, 1,850 in production and 2,850 in central and regional administrative offices.

Despite these job losses, the merger was expected to lead to an increase in market share, although not necessarily to any longer-term expansion of jobs. The company’s CEO, Mr Wenning, stated:

*We want to create an internationally successful pharmaceutical company with competitive cost structures. We said right from the start ... that job cuts would be necessary. These essential streamlining measures are to be fairly implemented in a socially acceptable process – balanced across the globe.*

The planned job cuts and plant closures seem to be proceeding on schedule. Although in the spring of 2007, workers demonstrated on the streets of Berlin because the precise number of planned job cuts at Schering’s site in the city was still unclear.

According to a press release issued by Bayer in March 2008, however, 90% of the jobs cut in Germany will be made without forced redundancies ‘in a socially responsible manner’ – which means offering severance pay above the statutory amount – although works council members have voiced concerns about whether workers have always left their jobs voluntarily. Moreover, works council members claim that they had to put pressure on Bayer to enter negotiations on the job losses and to award compensation for the workers affected.

In addition, according to the works council, the terms and conditions of employment in Schering were adapted and reduced to suit those at the former Bayer.

**Outcome for company**

According to the Head of Global Drug Discovery at Bayer Schering Pharma, Andreas Busch, the integration process is running ahead of schedule. A company press release in May 2008 (in German) stated that, in line with initial plans, up to March 2008, 90 Schering subsidiaries had been integrated into Bayer, half of them from reducing the workforce. The merger was expected to save €800 million in costs, €100 million more than expected, by 2009. In addition, the merger has enabled pharmaceutical research activities to be streamlined.

How beneficial the merger has been outside the company, however, remains questionable. In March 2006, Berlin politicians supported the merger expecting it to improve Berlin’s position as a research location. Whether it has had this effect however is unclear, although it is clear that Berlin has lost several hundred administrative jobs.

**Estonia: Swiss investment company Sorbes AG and Repo Vabrikud**

The Swiss investment company Sorbes AG, which previously held 51% of the shares in AS Repo Vabrikud, a manufacturer of melamine-faced chipboard in Estonia, purchased the remainder of the shares in August 2005. At the time of the acquisition, about 590 people were employed in AS Repo Vabrikud.

**Reasons for merger**

Sorbes AG’s extension of its shareholding in Repo Vabrikud was motivated by its plans to carry out large-scale investment in the company and the desire to secure all of the return from this venture. With the increased shareholding, the company aimed to attain a larger share of existing markets and to enter new ones, especially in Russia.

**Involvement of trade unions/employee representatives**

Neither the trade unions nor other employee representatives were consulted about the extension of share ownership or played any part in the decision-making process leading up to the transaction, nor, despite the lack of consultation, was there any protest from the workforce.
**Effects on employment**

Following increases in oil prices and water handling costs, the hardboard factory in Estonia was closed because it was operating at a loss. This led to 150 jobs being cut, but it allowed the company to concentrate successfully on manufacturing melamine-faced chipboard, its main product line. The closure of the hardboard factory was announced in September 2006 and was accomplished by means of collective redundancies before the end of 2006.

The extension of share ownership was expected to lead to an expansion of production through investment in new capacity, although it was not planned to lead to any creation of new jobs. The reduction in employment was, accordingly, not out of line with what was intended at the time of the transaction. The Estonian Unemployment Insurance Fund (Töötukassa) helped the workers concerned to find new jobs and arranged meetings with potential new employers.

**Outcome for company**

Since the extension of share ownership, production in the company has expanded as a result of investment by Sorbes AG, the company’s profitability has increased and AS Repo Vabrikud has become the biggest producer of melamine-faced chipboard in the Baltic region and one of the biggest exporters in Estonia. Sorbes AG has continued to invest in the company, planning for further growth in the future.

**Ireland: Irish Life and Permanent and Trustee Savings Bank**

The former state-owned Trustee Savings Bank (TSB) was acquired by Irish Life and Permanent in 2001 to form Permanent TSB. Irish Life was itself owned by the state until 1991 and had taken over Irish Permanent and Irish Progressive in 1999. The bank, which has its headquarters in Dublin and branches right across Ireland, offers a range of personal financial services and is the leading provider of residential mortgages as well as the largest life assurance company in Ireland, where almost all of its activities are concentrated.

At the time of the merger, Irish Life and Permanent employed about 2,800 people and TSB, which was valued at approximately €300 million, some 1,200 people.

**Reasons for merger**

The acquisition of TSB gave Irish Life access to a clearing bank and its network of branches, as well as an extended customer base.

**Involvement of trade unions/employee representatives**

Trade unions in both companies were consulted to some extent in relation to the merger, although the process was constrained by stock exchange rules over confidentiality. Since the merger was certain to go ahead, trade union efforts were focused on obtaining the best deal possible for their members.

Before the acquisition, trade unions in TSB were involved in negotiating an Employee Share Ownership Plan (ESOP), under which workers received a 14.9% stake in the company in exchange for concessions regarding working arrangements designed to increase flexibility and productivity and involving an extension of the working week from 35 to 37 hours. After the merger, the company offered its Irish Permanent staff a similar deal in return for the same type of concessions. The staff concerned rejected the deal but following a Labour Court recommendation settled for a cash deal that gave staff a wage increase of 7.5% plus a lump-sum payment in return for an increase in working time to 36.25 hours a week.

**Effects on employment**

The expectation at the time of the acquisition was that some rationalisation of activities would occur but that this would lead to an overall expansion in employment. It was also intended to harmonise operations across the two companies as well as terms and conditions of employment. In general, this seems to have happened and the objectives of the merger seem to have been attained by Irish Life, which views the acquisition of TSB as being very successful.
Although some rationalisation of bank branches has occurred in certain areas (announced in 2005), and is still ongoing, involving a proposed reduction of 200–300 jobs through voluntary redundancies and natural wastage, mainly among branch managers and staff, the company has increased jobs significantly. The company is changing the management structure in some of its branches by ‘twinning’ up to 40 branches out of a total of about 100, which means that one person will manage two branches each, while rationalising other aspects of branch activity. Employment is estimated to be well over 5,000 workers, over 30% higher than when the merger took place.

The policy of Irish Life was to equalise terms and conditions of employment across its operations. Therefore, in 2003, the company agreed with trade unions at TSB to changes in the working conditions of TSB staff and an increase in pay to bring their terms and conditions into line with workers in the rest of the group.

However, the belief that terms and conditions of Irish Permanent workers had fallen behind those of TSB staff led to a five-month long dispute between November 2003 and March 2004 between the workers’ union Amicus (now Unite) and the company, which was resolved only after intensive discussions at the Labour Relations Commission (LRC). Since 2004, further harmonisation of terms and conditions of employment has occurred and unified bargaining arrangements between the company and the four trade unions representing employees have been established.

**Greece: Aluminium de Grèce and Mytilineos Group**

In 2005, Mytilineos Group, a collective of Greek businesses operating in the metal industry, acquired Aluminium de Grèce, the leading Greek producer of aluminium and a member of the Alcan group, the major multinational producer of aluminium. Aluminium de Grèce is located in Boeotia, bordering the Attica region in central Greece, where much of the country’s metal industry is concentrated. The Mytilineos Group, which operates in Greece, Cyprus and the Balkan states, is involved in a wide range of activities, most of them connected with the metal industry but including the manufacture of defence equipment and motor vehicles.

At the time of the merger, Aluminium de Grèce employed about 1,300 people, while the Mytilineos Group had some 3,000 employees. Initially, the latter purchased 53% of the share capital in the company valued at around €79.5 million but later acquired the remainder and incorporated Aluminium de Grèce fully into the Mytilineos Group.

**Reasons for merger**

The aim of the acquisition was to strengthen the Mytilineos Group in the aluminium sector of the metal industry. The sale fitted into Alcan’s restructuring of its operations across the world and for Aluminium de Grèce it made good business sense to be incorporated into a major Greek company in the metal industry.

**Involvement of trade unions/employee representatives**

The management of the two companies informed trade union representatives of the decision to merge the two businesses but no consultation with the unions took place as such, nor was it required under legislation or collective agreements. The trade unions were not opposed to the acquisition since it did not seem to involve any significant changes in labour relations in the two companies.

**Effects on employment**

Since the acquisition was a result of seeking to exploit the business opportunities that it raised rather than of financial problems, it had no major effect on the operations of the two companies. No plans were set to reduce staff levels, although after the event, the number of workers employed was slightly reduced by not replacing people leaving the company. Equally, no changes occurred in the terms and conditions of employment in the company acquired.
Outcome for company

The plan made at the time of the acquisition of undertaking large-scale investment in Aluminium de Grèce and modernising its production techniques has largely been carried out. The company’s turnover has risen, although this is mostly due to an increase in international prices of aluminium, and its share price more than doubled soon after the purchase.

Following the acquisition, the Mytilineos Group has continued to expand its operations by extending its interests in the metal industry and recently expressed its intention to enter the energy market by acquiring recently privatised companies in Greece. Such a move would give the company the means of producing the energy needed to operate its plants in the aluminium and other metal industries and to control costs that have been rising markedly in recent times. The group is, therefore, participating in tenders issued by the Greek government for the rights to construct and operate energy generation plants.

France: Neuf Telecom and Cegetel

The two French telecommunications companies Neuf Telecom and Cegetel (also known as Compagnie Générale de Télécommunication) first attempted to merge operations in 2004 but encountered opposition from Neuf Telecom’s shareholders who considered that too low a valuation had been put on their shares. The merger agreement was reached a year later in May 2005. Cegetel had initially been created by French media and communications group Vivendi, in order to bring together the telecommunications activities of the group. Neuf Telecom, formerly known as LDCOM, operated in the same sector of activity, both companies specialising in the sale of network capacity to other operators – in 2005, the two companies each had 22,000 kilometres of optical fibre cabling. The go-ahead for the merger was given by the European authorities in August 2005 and the new company was renamed Neuf Cegetel.

At the time of the merger, Cegetel employed about 2,000 people and Neuf Telecom 2,600 people. The merger was carried out by the transfer of shares, with SFR (another French telecommunications company jointly owned by Vivendi and Vodafone), the biggest shareholder in Cegetel, and the private company Louis Dreyfus, the biggest shareholder in Neuf Telecom, each receiving 28% of the shares of the new group.

Reasons for merger

The year before the merger, both companies made major financial losses. Both were relatively small operators in the market trying to compete with France Telecom as well as Free, the largest internet service providers in the country. The motivation for the merger was to improve their position in this respect and to become the main competitor against France Telecom and Free in the provision of internet as well as telephone services. Soon after the merger, the management of the new group set a target of accumulating four million private clients, including two million subscribers to ADSL – a data communications technology that enables faster data transmission over copper telephone lines than a conventional voiceband modem can provide – within 18 months and securing 20% of the market for services to companies. The overall aim was to increase turnover from €2.8 billion in 2005 to €3.3 billion in 2007.

Neuf Telecom was no stranger to mergers, being part of the LDCOM group, which had acquired no less than 10 competitors in the three years before the merger.

Involvement of trade unions/employee representatives

Although the trade unions represented in the companies were concerned about planned job losses and played no part in the merger decision, they did not attempt to prevent the negotiations taking place. They were aware that the merger would probably lead to a restructuring process, but they accepted that the merger was necessary to ensure the long-term future of the two companies in light of competition. The only trade union that opposed the merger was the General Confederation of Labour (Confédération générale du travail, CGT) on the grounds that in the prevailing economic climate employees losing their jobs would have great difficulties finding new ones.

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Effects on employment

The day after the merger was announced, the director of Neuf Telecom and the new group Neuf Cegetel outlined a cost-saving plan, which, as well as planned reductions in external and structural costs and in investment, included a 10% cut in the wage bill. The latter would mean the loss of an estimated 600 jobs, which was to be achieved on a voluntary basis. Following negotiations over redeployment terms and the amount of compensation for workers, all of the trade unions represented at the companies, except for CGT, signed an ‘agreement on social guarantees’ with the management of the two companies.

Although no specific indication was given as to which jobs or sites would be affected, it was expected that most would be in duplicate positions, such as in administration and sales. The aim of cutting such jobs was to save €320 million over the two-year period 2005–2007 with no expected expansion of activity or employment in either the short or long term.

The voluntary redundancy plan was initiated in December 2005 and lasted almost 15 months. Although management announcements in May 2005 referred to 661 job cuts on a voluntary basis, almost 1,000 jobs were cut, which included a reduction that had already been planned by Cegetel before the merger. While most of jobs lost were through voluntary redundancy, some were involuntary, with the procedures infringing the Labour Code in some cases, leading to Neuf Cegetel receiving two warnings from the Labour Inspectorate.

Outcome for company

The targets set immediately after the merger have generally been attained, in some cases ahead of schedule. Since 2006, the company has become the biggest French operator in the telecommunications market after France Telecom. The company, which set itself the target of becoming listed on the stock exchange within two years, has since purchased AOL in September 2006 from the New-York based media and entertainment company Time Warner for €288 million, Mediafibre (a small French operator specialising in fibre optics) in January 2007 and Erenis (the biggest high-speed fibreoptic telephone, internet and television service provider in Paris) in April 2007. In May 2007, Neuf Cegetel and Deutsche Telekom signed a final agreement to buy Club Internet (T-Online France) for an estimated sum of over €450 million. The company, therefore, has pursued an aggressive strategy of both acquiring competitors and growing internally.

Since the merger, competition has increased in the telecommunications market in France. As a result of acquiring competitors, Neuf Telecom is now close behind France Telecom and Free in terms of size and its turnover is continuously growing.

Italy: ABB and Elsag Bailey

ABB, a large Swiss multinational company operating in the electromechanical industry, announced its intention to acquire Elsag Bailey from the Iri-Finmeccanica group, an Italian public enterprise owned by the state, in 1998 and completed the purchase during 1999. Elsag Bailey specialised in the manufacture of control systems for electricity generation, transmission and distribution, products also produced by the ABB group. However, its products and services extended much further, ranging from transformers and switchgear to systems for automating the production process, including robots and the associated software. ABB itself had previously been formed as a result of the merger between the Swedish company Allmänna Svenska Elektriska Aktiebolaget (ASEA) and the Swiss company Brown, Boveri and Cie (BBC).

At the time of the merger, Elsag Bailey employed about 1,000 people in Italy and some 10,000 people worldwide, while ABB Italia had around 8,000 employees but some 200,000 around the world. The size of the ABB workforce has declined since then but the company still employs about 110,000 people.
**Reasons for mergers**

Elsag Bailey was one of ABB’s direct competitors in the production of automated systems for the generation and distribution of electricity, although few overlaps emerged between the markets in which they were significantly represented and between their clients. By acquiring Elsag Bailey, ABB became the leading force in a number of market segments, including, for example, automated systems for electricity substations. At the same time, the company acquired knowledge and specialist staff from Elsag Bailey, including some 400 highly qualified engineers.

Elsag Bailey was only one of many companies acquired by ABB around the world to reach its substantial size.

**Involvement of trade unions/employee representatives**

The trade unions in Italy at national and company level were informed by ABB about the acquisition of Elsag Bailey, as were the EWCs in ABB plants, but they did not play an active role in the decision-making process. However, ABB was subject to a series of rules – the so-called ‘Prodi protocol’ – relating to the privatisation of state enterprises belonging to the Institute for Industrial Reconstruction (Istituto per la ricostruzione industriale, Iri), of which the Finmeccanica group was a member. Under the protocol, the purchasing company was required to keep employment levels unchanged for the first five years following the acquisition, unless a specific agreement was reached to the contrary with trade unions. In this case, in June 2000, ABB Italia and the main trade unions agreed a restructuring plan that included a reduction of the workforce by around 200 workers, which would be split between ABB Italia and Elsag Bailey.

The trade unions, in fact, supported the acquisition, since it was part of a broader plan for the reorganisation and expansion of ABB Italia’s activities in various areas. The acquisition of Elsag Bailey, moreover, also gave trade unions an opportunity to negotiate industrial relations in ABB Italia and to reach agreement on their involvement in the design of company strategies through the creation of a national-level coordination body.

**Effects on employment**

Part of the business reorganisation plan drawn up at the time of the acquisition was the closure of the Elsag Bailey plant at Pero near Milan in northern Italy, with a loss of some 200 jobs mainly in design, engineering, technical and commercial activities, and the redeployment of workers to ABB Italia plants in the same area over a period of eight to 10 months.

Although no specific plans were defined to increase employment in the longer term, over the years ABB Italia has increased the number of employees in its ‘Power systems’ division where almost all of the Elsag Bailey resources were transferred. Because of its success in expanding its business, ABB Italia hired 500 new employees in 2007 across the company as a whole and expected to hire about another 600 workers in 2008.

The agreement made in June 2000 between ABB Italia and the main trade unions included the use of various measures to reduce the negative social effects for employees losing their jobs in Elsag Bailey. These measures included voluntary pre-retirement measures, transfers to other areas of the group’s activities and incentives to work part time. The workers concerned were also given access to outplacement services and training programmes.

In addition, the company was involved in measures to develop alternative activities to counter the effect on the Pero area as a result of the closure of the local plant.

The integration of the Elsag Bailey employees into ABB Italia and the harmonisation of their terms and conditions of employment with those of other workers in the company occurred gradually with no significant deterioration of these.
**Outcome for company**

The results that ABB anticipated from the acquisition of Elsag Bailey have largely been achieved, in the sense that it has enabled ABB to gain a predominant position in the segments of the market in Italy in which the two companies operated.

Since the acquisition, ABB has reorganised its business at the global level, dividing its activities into five divisions – power products, power systems, automation equipment, process automation and robotics – and disinvesting in activities that do not relate to its core business. In 2002, for example, the group sold its financial services division, and in 2004, its oil, gas and petrochemicals division.

**Cyprus: Laiki Bank and Egnatia Bank and Marfin Financial Group**

Laiki Bank, one of the biggest financial groups in Cyprus, made an offer to acquire 100% of Egnatia Bank and Marfin Financial Group in September 2006. The acquisition took place a month later after an extraordinary general meeting of shareholders of Laiki Bank where the triple merger was approved and the change of the company name to Marfin Popular Bank Public Co. Ltd was announced. While Laiki Bank was established over 100 years ago, Egnatia Bank in Greece was set up only in 1991 in Thessaloniki in northeastern Greece and, with the Mafin Financial Group, had been listed on the Athens Stock Exchange only since 1999. Less than a year before the merger, Laiki Bank had been owned by HSBC, Europe’s largest bank, which still held just over 21% of the shares at the time. However, HSBC subsequently disposed of its shares to the parties involved in the merger.

At the time of the merger, which was brought into effect through share transfer, the three companies were of a similar size, with Laiki Bank employing just under 2,000 people, Marfin Financial Group just over 1,760 and Egnatia Bank 1,370.

**Reasons for merger**

The motivation behind the merger was to create a strong financial group to facilitate expansion into the broader banking and financial market of the Balkan states and southeastern Europe. Laiki Bank had developed a strategy to expand its business interests abroad through acquisitions in foreign markets, although this was constrained by the companies relatively small size. The merger was a means of overcoming this constraint as well as a response to the competitive challenges arising from market liberalisation and intensification of international competitive pressures. Marfin Financial Group had also been following a policy of rapid expansion, mainly in Cyprus and Greece.

The initial acquisition of shares and the subsequent merger sparked opposition in Cyprus for four reasons: first, because of doubts over whether Laiki Bank shareholders would receive a satisfactory price on the value of their shares. Secondly, opposition arose because of doubts that the merger would improve the bank’s efficiency and, therefore, its profitability, since the bank was already as technically advanced as the other two institutions. Thirdly, doubts arose regarding whether the merger would benefit the national economy, in terms of making more finance available for small and medium-sized enterprises (SMEs) and increasing the stability of the credit system. Fourthly, a concern arose that the merger would see a dilution of the bank’s policy of allocating importance to its social responsibilities. In addition, the merger was opposed by trade unions and employees because of the failure to inform them about the intended changes, as noted below.

**Involvement of trade unions/employee representatives**

Trade unions and employee representatives were not consulted over the merger and played no part in the decision-making process leading up to it, nor were they even informed that a merger was planned. This caused opposition from trade union ETYK. It was only at a later stage after complaints from employees that Laiki Bank informed its staff through a written assurance that there would be no adverse consequences either for jobs or the terms and conditions of employment. On the contrary, the bank highlighted that some improvements would be introduced.

This experience led to the establishment of EWCs in the countries three main banks – Bank of Cyprus, Laiki Bank and Hellenic Bank. In addition, ETYK applied to set up EWCs in three Greek banks operating in Cyprus (Alpha Bank, National Bank and Emporiki Bank), which was an innovative move given that the trade union was based in another country.
**Effects on employment**

Since the merger was part of a broader policy of expansion, in 2007, Marfin Popular Bank opened 16 new branches and 10 new banking centres in Greece, one new branch in Cyprus and another 14 new branches in other countries in which the group operates. Increases in employment, therefore, have been concentrated in countries other than Cyprus and it is unclear how many new jobs have been created in the latter, or indeed whether any have been created at all.

Changes in labour relations in the banking sector have occurred since the merger, which had favourable consequences for employees. The changes include the creation of a ‘meritocracy committee’, in which trade union members are involved in promotional procedures, employee representation on the company’s board of directors, which was previously inconceivable, and the removal of obstacles to staff being able to move between banks. These measures were adopted almost immediately by the other Cypriot banks.

**Outcome for company**

The merger process has proceeded relatively smoothly, with Laiki Bank employees playing a leading role in the operational unification of the three banks because of the knowledge acquired during collaboration with HSBC. Profitability of the new group has increased, with aggregate pre-tax profits increasing by 130% in 2007. Loans and deposits have risen markedly and operations have expanded into other countries – for example, in terms of the acquisition of Marine Transport Bank in the Ukraine and an agreement to acquire Lombard Bank Malta plc and OAO RPB-Holding in Russia. At the same time, business loans for SMEs and the development of infrastructure have increased.

The merger also seems to have intensified competition in the domestic market, as well as in neighbouring countries, and Cyprus’s other two major banks have both been involved in merger activity in response.

**Latvia: Tapeks and Aile**

Tapeks acquired Aile in February 2007, after announcing the intention to take over the latter in September 2006. The two companies were both wholesalers of building materials, employing between them some 1,400 people. After the merger, Tapeks has concentrated on the wholesale of heavy building materials and Aile on finishing materials.

**Reasons for merger**

The main reason for the takeover was to strengthen the market position of the two companies, with the two having a combined share of about 20% of the market for building materials. Both sets of management, moreover, considered that the merger would enable them to use their financial and other resources more effectively and thus provide a better service.

**Involvement of trade unions/employee representatives**

Trade unions and employee representatives were not consulted at all over the merger and took no part in the decision-making process either before or after the takeover occurred.

**Effects on employment**

The companies announced that the merger would not result in any reduction in employment. Indeed, since the aim of the merger was to expand activities, the creation of some 150 new jobs was expected. No change occurred in the terms and conditions of employment in the two companies, although it was announced that some harmonisation would occur between the two sets of employment conditions.

**Outcome for company**

The merger resulted in a larger market share for the combined company. However, because of the downturn in the economy since the takeover, with a significant reduction in output in the construction sector, it is difficult to assess the effect on the performance of the company.
Lithuania: PKN Orlen and Mažeikių Nafta

In December 2006, the Polish oil company PKN Orlen (Polski Koncern Naftowy Orlen, Orlen) acquired Mažeikių Oil Refinery (Mažeikių Nafta, MN), a state-owned producer and distributor of fuel and petroleum products, for about €1.8 billion. At the time, MN employed around 3,300 people and Orlen just under 4,800 people.

Reasons for merger

Orlen’s strategy at the time was to search actively for new business opportunities, including the acquisition of new companies. The acquisition of MN was expected to strengthen its production capacity, increase its access to oil pipelines and open up new markets especially in the Baltic states and other parts of central Europe, as well as in the US. In addition, the takeover was expected to expand the company’s retail outlets and to help achieve its objective of operating 120 petrol stations in Lithuania and Latvia by 2012.

Involvement of trade unions/employee representatives

Immediately after the decision to sell, the trade union succeeded in negotiating an undertaking with the state that it would ensure that existing collective agreements, which covered the terms and conditions of employment, including profit-related bonuses and holiday entitlements, would remain in place after the change in ownership. They failed, however, to obtain agreement on a pay rise.

Effects on employment

Since the acquisition, no substantial changes have occurred in the number of workers employed in the company itself. Two spin-off companies, Health Care Centre (Sveikatos priežiūros centras, SPC) and Services for You (Paslaugos tau, PT), have been created to carry out the activities concerned, however, in order to concentrate MN’s activities on the oil industry. SPC employs 38 people, most of whom were transferred from the occupational medical service that operated within MN – in fact, the management planned to close the service down but trade unions convinced them to re-establish it as a separate company. PT, on the other hand, is still in the process of being established and will employ about 100 people when it is up and running, most of whom once again will be transferred from MN with the same pay and conditions.

The acquisition has had no material effect on MN staff, as they were protected by the collective agreement in force at the time of the purchase. No changes in pay scales or working hours and no cuts in employment have been introduced. Six employees, however, refused to join the new company and were dismissed with severance pay.

Outcome for company

After the acquisition of MN, the Orlen Group became the largest oil refiner in central and eastern Europe and invested in the modernisation of the MN refinery. In addition, the network of petrol stations in Lithuania and Latvia is in the process of being expanded further, while energy partnerships have been negotiated with Russian companies. Overall, the incorporation of MN into the Orlen Group has strengthened the oil refining sector in Lithuania.

Luxembourg: Tarkett and IVC

In December 2005, IVC, a Belgian manufacturer of vinyl flooring, announced the purchase of one of two plants owned by the French company Tarkett, operating in the same industry, in Luxembourg. The two companies created a new one, called RFI, to operate the plant, sharing the capital equally between IVC and Tarkett, with the intention that IVC would eventually purchase the other 50% of shares.

At the time of the merger, the companies employed 120 people in Luxembourg and about 200 in Belgium.
**Reasons for merger**

Tarkett sold the plant in question in order to obtain cash to expand its market in eastern Europe, mainly in Russia. For IVC, the motivation was to quickly increase its production capacity in Luxembourg. Since each company produced slightly different products and were seeking to expand in different geographical markets, they were not in direct competition with each other and their different objectives were complementary rather than in conflict.

**Involvement of trade unions/employee representatives**

Trade unions in the two companies were not consulted before the acquisition was agreed and were not involved in the decision-making process. They were simply informed of the event after the agreement had been signed. The only role they played was to make sure that legislation on safeguarding workers’ rights in the event of a transfer of undertakings was respected and the employees concerned enjoyed the benefits they were entitled to.

Nevertheless, the trade unions in Luxembourg were in favour of the merger going ahead. This was mainly because they believed that the plant in question was under threat of closure in the short to medium term unless it could be taken over. This view was also shared by the public authorities in the country.

**Effects on employment**

The takeover was an opportunity for both companies to expand their activities, despite it being in different places, although no concrete plans were made to increase jobs in Luxembourg. At the same time, no plans were defined to reduce employment. Thus, existing jobs were guaranteed when the acquisition was announced. Moreover, the terms and conditions of employment in the plant remained unchanged.

In 2008, over two years after the acquisition, 25 new jobs were created for machine operators on the production line.

**Outcome for company**

The transaction seems to have had the desired results for both companies. Neither has been involved in another merger since, although another Belgian manufacturer of vinyl – namely Domo – recently approached IVC about the possibility of being taken over; however, IVC rejected this proposal. As a consequence, the vinyl division of Domo stopped production in September 2008.

**Hungary: Budapest Airport Rt and BAA/Celebi Ground Handling Inc./HOCHTIEF AirPort**

The Hungarian government, through the Hungarian Privatisation and State Holding Company (Magyar Nemzeti Vagyonkezelő Zrt., MNV Zrt.), announced the privatisation of Budapest Airport Rt. in June 2005. The sale of the company to the British company BAA took place in December 2005. Within months, BAA decided to auction its stake in Budapest Airport Handling (Kereskedelmi es Szolgáltató Kft, BAH) that provides ground handling services at Budapest airport, which it purchased as part of the takeover deal. This was acquired by Celebi Ground Handling Inc. of Turkey in October 2006. In June 2007, BAA then sold its holding in Budapest Airport to HOCHTIEF AirPort GmbH (HTA), part of the German HOCHTIEF Group, one of the largest construction companies in the world.

At the time when it was privatised, Budapest Airport employed about 2,000 people and was valued at around €1,850 million. When Celebi acquired BAH, it gained around 500 employees. HOCHTIEF purchased the company from BAA for around the same price.

**Reasons for merger**

It is unclear why BAA acquired Budapest Airport only to sell it some 18 months later. For the Hungarian government, it represented a means of obtaining cash to reduce its borrowing requirement. For Celebi, the purchase of BAH represented a means of entering the European market. For

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HOCHTIEF, the motivation for acquiring Budapest Airport was to expand its business and to add to its portfolio of airports. Since Budapest Airport is of strategic importance for Hungary and a vital part of the national transport system, its sale to a foreign company was opposed by the political opposition.

**Involvement of trade unions/employee representatives**

Initial attempts to privatise the company were contested by employee representatives. The Budapest Airport Works Council challenged successive privatisation attempts in the Budapest Labour Court on the grounds that, among other complaints, it had not been informed or appropriately consulted prior to the publication of the invitation to tender. The court upheld the works council’s claim and ruled the tender to be invalid on two separate occasions. After the ruling, the privatisation authority took care to involve employee representatives in subsequent negotiations with potential buyers. Their involvement, however, was limited to being consulted as required by law.

When Celebi took over BAH and its 500 employees, the trade unions concerned and the works councils of both Budapest Airport and BAH were consulted during the tender process. The terms and conditions of employment of all BAH employees after the purchase were governed by the collective agreement then in force, which was valid up to September 2008. Part of the agreement with the trade unions was that all BAH employees should receive a performance bonus equivalent to three months’ pay following the deal.

**Effects on employment**

The purchase of the company by BAA was intended to lead to the rationalisation of activities and operations, as set out in the privatisation agreement. The Minister of the Economy at the time announced that the agreement would lead to the creation of up to 30,000 new jobs over the following 10 years due to airport developments.

Following the takeover, a number of manual workers lost their jobs, predominantly older workers, either leaving voluntarily or taking early retirement, although some were made redundant involuntarily. At the same time, additional office jobs were created. Trade unions succeeded in including relatively favourable terms for those made redundant as a result of the agreement, with each of the people concerned receiving two months’ wages as compensation.

When Celebi purchased BAH, it was forced to pay significantly high rent for the use of facilities, which resulted in the company reducing wages and led to conflict with the workforce.

**Outcome for company**

During BAA’s 18-month ownership of Budapest Airport, no attempt was made by the company to develop the facility as indicated in its tender proposal and no substantial changes were made to the buildings or operations. On the other hand, since HOCHTIEF acquired the airport, the company has initiated a programme of expansion and development.

**Malta: Emirates International Telecommunications Malta Ltd and Maltacom PLC**

Emirates International Telecommunications Malta Ltd (EIT) finalised the acquisition of the Maltese government’s 60% stake in Maltacom PLC (later renamed GO plc), Malta’s leading telecommunications service provider, in May 2006. EIT is a joint venture of International Tecom Investments (TECOM) and the Dubai Investment Group (DIG), both members of Dubai Holding, which is owned by the Dubai government. Maltacom operated solely as a telecommunications service provider whereas the TECOM-DIG consortium activities extend across a wide range of areas, including real estate, industrial parks, financial services, investment companies, radio and television broadcasting, as well as telecommunications and IT.

At the time of the acquisition, which was valued at about €220 million, Maltacom employed some 1,425 people, the TECOM-DIG consortium around 20,000 people. As part of the deal, the Maltese government imposed a list of obligations on TECOM-DIG. This list included maintaining the jobs of

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all those working in Maltacom up until 2009, investing €68 million in fixed and mobile networks by the same year, and supporting 100 students a year on management courses in technology and 50 students on courses in digital media.

Reasons for merger
The Maltese government’s sale of Maltacom was part of its policy to reduce the size of the public sector in an effort to curb public sector debt and improve efficiency. For TECOM, the purchase was part of its strategy to become a key player in the telecommunications industry in the Mediterranean region. Indeed, a few days before the acquisition, it had agreed to invest €257 million in the creation of SmartCity, an IT village designed to host the top international IT companies and projected to employ over 5,600 people. Both parties considered that TECOM’s experience coupled with Malta’s growth potential and geographical location could make the country a hub for the information and communications technology (ICT) sector in the region.

While the Labour Party (Partit Laburista, MLP) and Green Party (Alternativa Demokratika) opposed the takeover price because it was below the stock market valuation, they did not oppose the acquisition as such. One other bid was put forward, but the price offered was lower than that offered by the winning consortium and it did not include the IT village plan and could not offer the jobs it was expected to generate.

Involvement of trade unions/employee representatives
The General Workers’ Union (GWU), which represented Maltacom’s workforce, was not included in the decision-making process, partly because of its past opposition to privatisation of the service. Nevertheless, it took no action to try to prevent the transaction going ahead.

Effects on employment
The acquisition was followed by internal restructuring of Maltacom, which aimed to streamline operations and increase efficiency. Although TECOM had pledged not to introduce any forced redundancies up until June 2009, it implemented a policy of voluntary redundancies amounting to the loss of about 175–225 jobs a year over the three-year period 2006–2008, with a further 75 job cuts planned for 2009. Voluntary redundancies were achieved mainly through older workers taking early retirement.

The new owners of the company were initially criticised by both GWU and the Union of United Workers (Union Haddiema Maghqudin, UHM) over the restructuring, but issues were quickly resolved and acceptable solutions were found. The terms and conditions of employment remained broadly unchanged. Although employees were asked to work full days during the summer months instead of reduced hours, they were compensated for this extra working time. However, GO began employing most non-technical staff on temporary employment contracts of up to six months’ duration and skilled technical staff on contracts of at least two years’ duration.

While employment has been reduced mainly by natural wastage and voluntary early retirement until now, it remains to be seen what TECOM’s response will be in 2009 if its target of reducing the workforce is not met. Although the range of services has been expanded, this has been accompanied by job cuts and no plan has been set for increasing employment in the future. Business, however, has grown and the opening of SmartCity is expected to boost growth further.

Outcome for company
GO has pursued its policy of modernisation and has continued to invest in updating services. Its initial goals have largely been met and the wide range of services provided has increased the company’s profitability. Expansion has continued through a new submarine cable that will connect Malta to Sicily. Furthermore, between 2005 and 2008, GO acquired holdings through TECOM in telecommunications providers in the Middle East, Tunisia and Greece.

For the Maltese economy, the creation of SmartCity should attract a substantial amount of foreign direct investment in the IT sector, while the increased competition in the market for
telecommunications and related services has forced other companies, such as Vodafone, Melita Digital TV and On-Vol Internet, to offer a better range of services at lower prices.

The Netherlands: ABN AMRO and Royal Bank of Scotland/Fortis/Banco Santander

In April 2007, a consortium comprising the Royal Bank of Scotland (RBS), the Belgian-Dutch bank Fortis and the Spanish bank Banco Santander first made an offer to take over the Dutch bank ABN AMRO, as a rival bid to that of Barclays bank in the UK, which had been in discussion about a possible merger for about a month. Although the offer was rejected by ABN AMRO, which favoured a merger with Barclays, a second offer of €71.5 billion by the consortium, which was higher than the Barclays’ bid, was put to shareholders in July 2007 and accepted. The acquisition took effect in October of the same year.

In 2007, ABN AMRO had about 114,400 employees in 50 countries, while RBS employed some 142,000 people in 36 countries, Fortis, whose main business is in the Benelux countries (Belgium, the Netherlands and Luxembourg), about 60,000 and Banco Santander about 130,000.

Reasons for merger

ABN AMRO had been underperforming for several years and this was reflected in its share price, which led the London-based hedge fund TCI, which acquired shares, to demand that either the bank be split up or sold to the highest bidder. This prompted the bank to first seek a merger with ING, another Dutch bank, and when this failed, with Barclays.

As a reason for the acquisition, the RBS-led consortium aimed to take over the various activities of ABN AMRO as a means of expansion. For example, RBS aimed to expand the corporate business, Fortis aimed to strengthen retail operations in the Benelux countries and Santander aimed to expand activities in Brazil and Italy.

Involvement of trade unions/employee representatives

Although trade union membership in ABN AMRO was relatively low, totalling only about 5% of the workforce, the SER merger code in the Netherlands – a list of regulations first introduced in 1970 to protect employee and shareholder interests in the event of a merger – obliged the company to consult the workforce. The central works council in ABN AMRO was, therefore, consulted at an early stage and was continuously involved in the process leading up to the acquisition.

In practice, the trade unions were in favour of the Barclays’ bid because virtually no overlap in activities existed and, accordingly, no threat to jobs was foreseen. They, therefore, supported management’s attempts at putting together a deal acceptable to shareholders.

When this attempt failed, the trade unions agreed a social plan to provide compensation for employees losing their jobs – those in ABN AMRO head office, in particular – which was subsequently improved in order to offer them redundancy payments equivalent to 18 months’ salary.

Effects on employment

The consortium announced in February 2008 that the takeover would lead to the eventual loss of about 8,000 jobs – 500 jobs from the transfer of the bank’s asset management operations to Fortis, 1,900 from the bank’s head office and 5,500 from the bank’s remaining offices, although not its retail branches.

In April 2008, RBS announced that it intended to cut 2,600 jobs at ABN AMRO in the Netherlands as part of its plan to reduce its global workforce by 25%. During the consultation, Fortis had promised the trade unions that no forced dismissals would occur. However, in May 2008, Fortis announced its intention to close one in every three bank offices in the Netherlands, resulting in a loss of 7,500 jobs up to the end of 2010. Although in September 2008, the bank announced that the reduction would be somewhat less.
The job losses that have occurred so far in the Netherlands, however, have all been achieved through voluntary redundancy, with workers taking advantage of the compensation scheme negotiated by the trade union. No compulsory redundancies have occurred. Despite these losses, the consortium members all expected a growth in business in the long run as a result of having a stronger market position, although the chances of this leading to an expansion of jobs were considered to be relatively small.

**Outcome for company**  
As a result of the credit crisis, the plans of the banks in the consortium have not been fulfilled in a major way. By October 2008, Fortis had collapsed, with its business in the Netherlands being nationalised and its business in Belgium being taken over by the French bank Paribas. Since the integration of ABN AMRO with Fortis had not yet begun, in legal terms it remains a separate company.

The credit crisis has resulted in dramatic changes for the whole financial sector, although in retrospect, it appears that Fortis was not big enough to take over ABN AMRO and it is generally recognised that the price paid was too much. Accordingly, the acquisition led to a decline in the financial position of the three banks rather than strengthening it.

**Austria: Austria Frost and Frenzel**

In November 2005, Frenzel, a German company in the food-processing industry, announced its acquisition of Austria Frost, an Austrian company operating in the same industry and located in Lower Austria (Niederösterreich), north of Vienna, and owned by the 11er Group. The merger was completed at the beginning of 2006 and the company’s name was changed to Frenzel Austria Frost. Both companies specialised in the processing, preserving and freezing of fruit and vegetables.

At the time of the acquisition, both companies employed about 300 people, although Austria Frost, which had accumulated debts of €26 million, had gone bankrupt in October 2005 and was to be closed down at the end of the year. Frenzel paid around €12 million for the company.

**Reasons for merger**

Since Austria Frost was insolvent, Frenzel saw a good opportunity for expanding its business at a relatively low price and, in particular, extending its range of products into deep-frozen desserts and instant meals, mainly for sale in Germany, as well as for acquiring specialist knowledge on the preparation of deep-frozen food by the steaming method.

A rival bid was made by the Belgian Pinguin group, also frozen food specialists. However, this bid was turned down in favour of Frenzel because Pinguin wanted to split the company and close down some of its production facilities, whereas Frenzel undertook to maintain the company intact, although with some redundancies.

**Involvement of trade unions/employee representatives**

Before the acquisition was announced, the trade union concerned and the works council in Austria Frost had organised protest action against the impending closure, supported by farmers and officials of the Austrian Chamber of Agriculture (Landwirtschaftskammer Österreich, LK), who were dependent on the company as their main or only customer. Formally, the decision to sell the company was taken by the receiver and neither the works council in Austria Frost nor the trade union concerned was consulted. Both, however, were in favour of the sale since their main aim was to secure as many jobs as possible.

**Effects on employment**

The merger was intended to lead to a streamlining of operations and a reduction of over-capacity. Frenzel announced the need for job cuts from the outset, without specifying exact numbers. In the end, 54 employees, all of them low-qualified workers on the production line and most of them young men, lost their jobs and had to accept compulsory redundancy.
Frenzel made no commitment to expand production in the longer term but undertook to modernise production techniques and maintain capacity, although the expansion of its product lines led to the creation of 70 new jobs.

Since the acquisition, pay and working conditions seem to have worsened at the company. According to a trade union representative, the company only pays collectively-agreed minimum wages and management regards labour costs as the main item on which to economise in order to maintain or regain competitiveness. The most serious problem for employees, however, is job insecurity due to the company’s financial problems (see below).

The company and the works council negotiated a social plan for workers made redundant but this included only a payment by Frenzel to the works council fund for distribution among those losing their jobs in an effort to help them during their period of unemployment.

The regional government of Lower Austria and the regional office of the Public Employment Service (Arbeitsmarktservice, AMS) set up a re-employment scheme for all 54 employees concerned with funds of up to €270,000.

Outcome for company

Since the acquisition, the company has extended existing and introduced new production lines. This led to the hiring of new staff, so that in the spring of 2008, the company employed more people than at the time of the acquisition. This growth, however, has not resulted in increased profits because the company, which sells its products under the Iglo brand, which is owned by the European-based private equity company Permira, is bound by existing contacts with its retail customers and cannot decide autonomously on the prices to charge. As a consequence, in June 2008, the company was again threatened by insolvency.

Wider consequences

The merger and the survival of the company was particularly important for the region, not only for the workers concerned, who would have had great difficulty finding new jobs, but also for the farmers in the region who rely on the company for selling their produce.

The closure of the Austria Frost plant would have meant the end of the production of deep-frozen vegetables in Austria. Although the merger has not really strengthened the competitiveness of the industry, it has secured its survival, at least for now, although experts are doubtful about whether it can continue to survive since this is highly dependent on the prices that its main customers – especially Iglo – are willing to pay in the future.

Poland: Bauer Publishing and Interia.pl

In January 2008, Bauer Publishing, a German company specialising in the publication of books, periodicals and newspapers, expanded into the Polish publishing market by acquiring Interia.pl, a Polish company specialising in providing web portals.

At the time of the acquisition, Interia.pl was valued at about €50 million and employed only 170 people, whereas Bauer Publishing had around 6,400 employees.

Reasons for merger

Bauer Publishing’s main reason for acquiring Interia.pl was to expand its multimedia activities and add a web portal to its newspaper (the company publishes 32 newspapers) and radio businesses (Bauer acquired the RMF FM broadcaster in 2006). The company aimed to exploit the opportunities offered by the internet and to take advantage of the potential economies of operating across three different media.

At the time of the merger, Interia.pl was in a sound financial position and one of the most popular web portals in Poland, with an expanding workforce, but its management saw potential gains from being part of a large operation with more diversified activities.
Involvement of trade unions/employee representatives

No trade unions existed in either Interia.pl or Bauer and worker representation in both companies was rather limited. Accordingly, no consultation took place with staff over the transaction in either company.

Effects on employment

Within less than a year of its acquisition, Interia.pl has expanded its workforce by 45% and now employs some 245 people. Although no explicit forecast was made of the scale of the expected increase in employment, an increase was expected to occur given the plan to extend the company’s activities. Most of the jobs created have been for qualified web designers and developers, database programmers, system administrators and sales support staff.

Outcome for company

Since the acquisition, Bauer Publishing has continued to pursue its multimedia strategy. As a result, Interia.pl has been able to broaden what it has to offer through its web portal and make it more attractive. Its web portal, therefore, now comprises content from the other media controlled by Bauer and incorporate a wide range of multimedia tools.

As planned, revenue from advertisements has increased and the average time spent by visitors to the site has risen. The company also developed its social-networking sites. In June 2008, the average internet user browsed Interia.pl social-networking sites over half an hour longer than those of the second most popular portal and two hours longer than those of the third most popular portal.

The merger has changed the balance of power in the media market in Poland, with Bauer becoming one of the leading players. As a result, it is likely to lead to consolidation of the market through further mergers of companies in different media areas.

Portugal: Sonae Distribuição, SGPS, S.A. and Carrefour

In July 2007, Sonae Distribuição, SGPS, S.A., a Portuguese retailer, announced its intention to acquire Carrefour in Portugal, a French-owned hypermarket chain. The acquisition took place at the end of December of the same year, with the Portuguese company paying some €662 million and then changing the name of the stores to Continente Hipermercados. At the time, Carrefour employed almost 2,900 people in Portugal, while Sonae Distribuição employed just over 28,800 people.

Reasons for merger

The motivation for the acquisition on the part of Sonae Distribuição was to expand its operations by taking over attractive sites with a relatively skilled workforce and at the same time to be able to spread overhead costs over a larger operation.

Involvement of trade unions/employee representatives

Employee representatives in the companies were informed about the decision but were not formally consulted and played no part in the decision-making process.

Effects on employment

The change in ownership did not lead to any rationalisation of activities and no jobs were lost. Instead, it was expected that in the longer term the change in ownership would result in an expansion of business and job creation. Terms and conditions of employment remained unchanged after the change in ownership.

Outcome for company

The outcome for the company has been in line with what was initially planned. The stores have been integrated into the Sonae Distribuição operations without any major problem.
Romania: Renault and Automobile Dacia

In July 1999, the French car company Renault acquired Automobile Dacia, a car producer owned by the Romanian state. At the time of the acquisition, Dacia and its subsidiaries employed some 27,560 people, while Renault employed over 133,000 people in its various plants. The cost of the acquisition was only USD 50 million (about €36 million as at 6 January 2009).

Reasons for merger

Renault’s reason for purchasing Dacia was to use it as a lower-priced brand to sell in developing countries and to market vehicles made to European standards at competitive prices. The intention was to upgrade both the existing plant by installing modern technology and the cars produced so that they would meet international quality standards. The aim of the merger was also to modernise and extend the sales network. A central objective was to manufacture a new stylish and reliable family car for launch in 2004 and to use this as a spearhead to enter emerging markets.

Involvement of trade unions/employee representatives

Neither trade unions nor employee representatives played any role in the decision-making process leading up to the acquisition. The trade unions in Dacia were informed of the purchase prior to negotiations between the State Ownership Fund (Fondul Proprietăţii de Stat, FPS) and Renault and were consulted during these negotiations. The trade unions were in favour of the acquisition and supported Renault’s proposed strategy for Dacia.

Effects on employment

The acquisition involved restructuring of Dacia and its subsidiaries, which were largely car component manufacturers, to modernise plants and methods of production. The plan was to reduce the number of staff to a minimum of 16,280 employees, representing a cut of almost 11,300 jobs, over 6,000 of which were to be in Automobile Dacia. The process was to take place in 20 phases every three months, beginning in December 1999 and finishing in September 2004.

A special department – the ‘Social Reinsertion Service’ (Serviciul Reintegrare Sociala) – was set up to provide counselling and guidance to those made redundant, advising them on finding a new job or starting a business. The Argeş County Agency for Employment (Agenţia Judeţeană pentru Ocuparea Forţei de Muncă Argeş, AJOFM Argeş) helped to provide training courses geared towards local labour market needs. The company worked with the trade unions to define the criteria for deciding which workers were to be made redundant and to agree a package of support measures for ‘socially-sensitive’ cases.

Outcome for company

The strategy was pursued as initially planned. At present, Dacia produces cars at its Mioveni plant in southern Romania, which has been modernised since the acquisition. The design and quality of cars produced has improved dramatically, personnel have received extensive training and the sales network has been strengthened. Dacia is now a major part of the Romanian car industry. The merger with Renault has boosted company growth and has been the catalyst for substantial foreign investment across the entire car industry in the country. Car production in Romania doubled between 2004 and 2007 – from 122,000 units to 242,000 units – and Dacia’s share of national output rose from 77.5% to 92%. Present estimates are that the jobs of some 120,000 people in Romania are dependent on Dacia.

Wider consequences

According to company representatives, the acquisition has had a significant effect on the region’s economy. It has generated economic and social development, including higher living standards through the provision of a stable long-term source of income. It has also resulted in more opportunities for training in skilled trades.

At the same time, the acquisition has led to the development of the region’s road network, and the company has contributed considerably to Romanian net exports and the state budget. Additionally, it
has improved Romania’s image abroad by demonstrating the stability of the business environment and by providing an example for foreign investors interested in developing related businesses.

**Slovenia: Saturnus Avtooprema and Hella**

Hella, a German multinational and one of the leading world producers of lighting equipment for motor vehicles, acquired Saturnus Avtooprema (SA), a Slovenian company manufacturing similar products, in 1997. The name of the merged company has recently been changed to **Hella Lux Slovenija** (HLS). HLS produces headlights for cars in small series of up to 2,000 units using the same methods as the parent company but producing in Slovenia where costs are lower. In addition, it specialises in the production of fog lights in the Hella group.

At the time of the acquisition, SA employed 520 people, while worldwide employment in Hella amounted to about 20,000 workers, which has since increased to some 25,000 workers. Hella first acquired a 51% stake in SA, which was subsequently increased to 92% and then to 100%. Immediately following the acquisition, Hella launched an investment programme to the value of €9 million in Saturnus SA.

**Reasons for merger**

From the beginning of the 1990s, SA gradually lost its traditional customer base. It thus became evident that to survive and to grow it would be necessary to find a strategic partner. Since Hella was already providing technology and know-how, it was an obvious choice to fulfil this role. Around the same time, Hella recognised the need for the company to grow faster and to expand internationally in order to respond to the demand for ‘just-in-time’ delivery and remain a major supplier to the main car producers. In 1992, Hella adopted a strategy of more intensive globalisation under the slogan ‘we are where our customers are’. The acquisition of SA was part of this policy. More specifically, it was intended as a step towards breaking into the Italian market – thus supplying Fiat – by combining Hella’s technology with SA’s low labour costs.

**Involvement of trade unions/employee representatives**

Trade unions and employees in SA were both informed and involved in the sale of the company to Hella from the outset, since this was a requirement of any privatisation in Slovenia. Moreover, a well-established system of dialogue existed between management and the two trade unions, which represented most of the workforce.

**Effects on employment**

The reason behind the acquisition was to restructure activities in the acquired company and to expand operations, although no formal plans were set for expanding employment as such. Hella guaranteed that the number of employees would not be reduced by more than about 10% within the first two years of the acquisition. As it has turned out, HLS now employs about 900 people – around 70% more than at the time of the acquisition – and as a result of recent expansion in production facilities the workforce is expected to grow by another 150 people in the next two years.

The composition of the workforce has not changed significantly, with some four unskilled or semi-skilled workers in production to every three skilled workers. This number is more than in the parent company but comparable to that in other manufacturing companies in Slovenia in labour intensive industries.

Changes have occurred in the terms and conditions of employment since the acquisition, although this is a widespread feature of Slovenian industries. Before the acquisition, all employees had permanent employment contracts. At present, about 8% of employees have temporary employment contracts, while a significant proportion of personnel come from employment agencies or are students, which increases the flexibility of the company in terms of staffing arrangements. Staff turnover is currently relatively low.
Outcome for company
The results of the acquisition have exceeded the prior expectations, with both turnover and employment amounting to around double the initial estimate, largely because of the competitive nature of operations and their location. At present, Hella has more than 70 manufacturing plants worldwide.

The level of control exercised by Hella over HLS has increased considerably over time, with both sales and purchases controlled by the parent company. Almost all of HLS production is exported, while 80% of inputs are imported, about 40% of these coming from other parts of the group. Nevertheless, HLS still has established strong links with the local community by purchasing various goods and services from local suppliers. In this regard, HLS management estimate that for every two additional jobs created in the company, one job has been created externally.

Slovakia: Slovenské elektrárne, a.s. and Enel
In February 2005, the Slovak Minister of the Economy and the Director General of Enel, the Italian energy group, agreed on the acquisition by the latter of 66% of the shares in Slovak Power Plants, an electricity generating company with plants in both the western (Jaslovské Bohunice, Mochovce and Nováky) and eastern part (Vojany) of the country. It also has hydro power plants across the country on the Danube and Váh rivers.

At the time, the company employed just under 8,200 people, while Enel had a workforce of about 50,000 workers and was the second largest energy company in central and eastern Europe.

Reasons for merger
The main reason for the takeover was to strengthen SE’s position in the domestic energy market, by improving its efficiency through the knowledge gained and expanding its financial resources for further development. Major restructuring, which had already been carried out from 2003 to 2005, had reduced operating costs, in part by cutting employment by 20%, and the company was reasonably profitable at the time of the sale.

The government’s initial plan was to sell a 49% stake in the company and there was some opposition to the sale of 66%. The government’s position was that the takeover would help to secure efficient electricity supply in Slovakia, in part by expanding the capacity of the Mochovce nuclear plant, and was part of its long-term privatisation strategy for the energy sector.

The sale proceeded through open tender and a number of other bids for the company were submitted in addition to that of Enel, including from Czech and Russian companies.

Involvement of trade unions/employee representatives
Trade unions representing the workforce and members of the SE Supervisory Board were consulted over the sale and discussions were held with them throughout the acquisition process, although their effect on the decisions made was marginal. In any case, they were not opposed to the takeover.

Effects on employment
Part of SE’s long-term development strategy was to rationalise operations, which included reducing staffing levels. Significant job losses had occurred before the takeover, as noted above, and, according to the trade unions, the rate of job loss increased slightly more after the takeover.

This is confirmed by the data available from the time of takeover to the end of 2007, which show a reduction of almost 2,400 jobs, representing a cut in the workforce of almost 30%. Most of the job losses resulted from the closure of the Jaslovské Bohunice nuclear power plant in western Slovakia and of four units at the Vojany, coal-fired generating station in the east of the country. The former closure was foreshadowed in the Accession Treaty to the EU, while the latter took place partly to reduce air pollution.

The reductions in employment were achieved partly by persuading older workers to take early retirement and partly through collective redundancies, with the rate of severance pay being higher than the statutory level because of state subsidies.
Although the takeover has been followed by job cuts, plans to build two new units at the Mochovce nuclear plant in western Slovakia over the next five years could result in job creation.

**Outcome for company**

According to Enel, the long-term objectives for SE are to secure a continuing increase in its market value, maintain its market share, increase its competitiveness by reducing costs and, in general, to turn the company into the most efficient ecological, safe and reliable electricity generating enterprise in the region. The strategy pursued over the 2005–2007 period seems to be a step in this direction.

The government’s expectations, however, have not been realised. In particular, while they intended to exercise a measure of control over the company through retaining some share ownership, it transpired that their 34% shareholding was not enough to facilitate this.

**Finland: Tallink Finland Oy and Silja Oy Ab**

In August 2006, the Tallink Finland Oy shipping company, a subsidiary of the Estonian AS Tallink Group, announced the acquisition of the Silja Oy Ab company, owned by the Bermuda-registered Sea Containers Ltd. The transaction was completed at the beginning of 2007 and the name of the combined company was changed to Tallink Silja Oy.

Tallink Silja Oy belongs to the Estonian AS Tallink Group, which is the market leader in cruise and passenger transport on its Estonian, Finnish, German, Latvian and Swedish routes and a significant freight shipping company in the Baltic region.

At the time of the acquisition, which was valued at about €450 million, Silja Oy Ab employed about 500 people onshore and Tallink Finland Oy some 200 workers. Silja Oy Ab also employed some 1,000 people on its ships.

**Reasons for merger**

The main motivation for the acquisition was to secure the gains from rationalising the two operations and in particular from extending the support activities provided by the Tallink Group’s headquarters in Estonia to the two operations, as well as from merging local sales offices. At the same time, the owner of Silja Oy Ab was facing serious financial problems and as part of the solution to these, it was decided to sell off this part of the business. To complete the transaction, an open auction was arranged by Société Générale – one of Europe’s main financial services companies, headquartered in France.

**Involvement of trade unions/employee representatives**

Trade unions were both consulted over the merger and were involved in the planning process of rationalising the business after the merger, as required by local legislation. They were informed of the intention to merge the two companies at the same time as it was made public, about three months before the merger was to take effect. According to shop stewards Riitta Hikipää and Markku Sirén, it would have been ‘better personnel policy to inform at least employee representatives … in advance. Some of the personnel first found out … from newspapers and only then heard about it from the representatives of personnel or management’. Negotiations with the trade unions concerned took place between 1 September 2006 and 17 October 2006 over various aspects of the plans for the organisation and operation of the merged company. Negotiations also covered the provision of support for those who were made redundant, as required by the recently introduced legislation obliging companies to be involved in helping the workers affected by redundancy to find new jobs.

Although the rationale for the merger was evident to all employees, workers were naturally concerned about losing their jobs and that some jobs would be shifted to Tallinn where labour costs were lower.

**Effects on employment**

The main objective of the merger was to reduce personnel costs, which made redundancies inevitable. A rough estimate made by management before the negotiations took place with employee representatives was that some 180 full-time equivalent jobs would be lost and that redundancies would be put into effect immediately once the negotiations ended. In the event, many of the workers
made redundant were older high-wage employees, many of them bilingual Finnish-Swedish speakers, as well as a number of executives, especially in Silja Oy Ab.

Although no specific long-term plans were drawn up, it was expected that the merger would increase possibilities for expanding business.

An additional round of negotiations with trade unions took place over layoffs in some of the support functions in the company around a year after the merger, mainly due to delays in introducing new systems for booking, payroll, book-keeping and other similar activities.

While jobs involved in these activities, such as administrative, back office, bookkeeping and IT roles, staff numbers have been reduced by about 30 people on a full-time equivalent basis, jobs in sales have increased by around 50 positions. About 20% of the job losses have been achieved by means other than redundancies.

For those workers made redundant, the company arranged a voluntary training programme concentrating on practical re-employment issues, which seems to have helped the workers concerned find new jobs more quickly.

Since the merger, all employees have become subject to the same collective agreement and, according to management, no substantive change has been introduced in the terms and conditions of employment. According to trade union representatives, however, terms and conditions have become much worse – for instance, they highlight that the quality of equipment has deteriorated and staff benefits have diminished along with pay.

Outcome for company

Although the outcome of the merger has been in line with what was initially planned, and overhead costs have been reduced in line with what was expected, the reorganisation has taken longer than anticipated.

Sweden: Ericsson and Marconi

In October 2005, the Swedish telecommunications equipment company, Ericsson, announced the acquisition of 75% of Marconi, the British electronics company with operations in Germany, Italy and the US, as well as the UK. The transaction was completed in January 2006. The 25% of Marconi not taken over was re-named Telent plc and is now a preferred provider of services to Ericsson.

Some 6,700 of the total 8,200 workers at Marconi were affected by the acquisition, while Ericsson employed about 58,000 workers at the time. The entire purchase, valued at about €1.8 billion, was a cash deal.

Reasons for merger

Access to mobile and fixed broadband services is growing at a fast pace throughout the world and Ericsson has a strong position in both areas of activity. The upgrade to broadband services is expected to lead to a massive increase in data traffic and will require an enormous expansion in network transmission capacity. The acquisition of Marconi was intended to boost this capacity and as such to strengthen Ericsson’s position in the growing transmission segment of the market where it is a clear market leader. The merger also added some €1.4 billion to turnover.

The main reasons for the acquisition were, therefore, to strengthen production capacity, increase market share in the fixed broadband access market (to number 2 in Europe and number 3 in the world), expand network transmission capacity and improve the financial position of Ericsson. The Marconi business was expected to represent an excellent solution for Ericsson, enabling it to offer customers a more comprehensive portfolio of solutions and to expand its R&D capability. Above all, the aim of the acquisition was to secure a leading position in the next generation Internet Protocol (IP) networks.

From the Marconi side, the company had shortly before the acquisition experienced a difficult period, after the failure of its bid to participate in British Telecom’s 21st Century Network transformation project, which resulted in a 40% drop in share price and 800 redundancies. This came after earlier financial problems dating back to 2001 and made the company a potential takeover target.
For Ericsson, the purchase was part of its strategic objective of growing faster than the market and maintaining profitability in line with the rest of the industry. Between 2005 and 2007, the company’s acquisitions amounted to some €4.3 billion.

**Involvement of trade unions/employee representatives**

Trade unions played no part in the decision-making process, although they were consulted in both companies a few days after the merger was announced. All of the trade unions involved were in fact in favour of the acquisition going ahead.

**Effects on employment**

The merger was intended to lead to rationalisation of operations and 1,000 redundancies in Marconi were announced at the time, spread relatively evenly across its operations in Italy, the UK and the US and across production, sales and, above all, administrative activities between late 2005 and the second half of 2007. These redundancies took place broadly as planned, mainly through giving severance pay incentives above the statutory amounts for people to leave the company voluntarily or to take early retirement. Job losses occurred mainly in the product development sector and included administrative staff, engineers, human resources (HR) managers and economists, most of whom were relatively highly skilled with good prospects of finding new jobs. Trade unions were involved in decisions as to how the staff reductions should be carried out.

At the same time, the takeover was expected to lead to an expansion of business and employment in the longer term.

**Outcome for company**

The strategy pursued after the acquisition is in line with that planned at the time. According to the CEO of Ericsson, Carl-Henric Svanberg, all of the organisational targets for the integration of the two companies had been fulfilled by October 2007 and the Marconi part of the business had shown good growth and contributed positively to earnings.

Since the acquisition, Ericsson has acquired Redback Networks, a US company with IP-technique for communication, Tandberg Television, a Norwegian company, and Entrisphere, a US company specialising in fibre technology and high definition television through broadband and other IP-based services, all in 2007. Furthermore, in 2008, it acquired LHS, a German software and service company supplying invoice systems. In addition, it has also taken over numerous smaller companies.

While it is difficult to judge how far the acquisition of Marconi and the other companies have strengthened Ericsson’s competitive position, the company remains one of the leading producers worldwide in the telecommunications equipment industry and seems well placed to maintain its position as technology continues to evolve.

**Sources**


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UK: Boots and Alliance UniChem

The two companies, Boots, a British company which had previously begun to expand internationally, and Alliance UniChem, established as Unichem in the UK in the 1930s and merged in 1997 with the French company Alliance Santé, announced a merger in October 2005. The companies eventually merged in July 2006, naming the extended company Alliance Boots. In April 2008, the company was acquired by Kohlberg Kravis Roberts, a US private equity company. The focus here is on the initial merger.

Alliance Boots is a large multinational group with a strong presence in the UK. Before the merger, Alliance UniChem had expanded through a series of acquisitions into a number of other European counties, including, the Czech Republic, Germany, Greece, Italy and Spain, as well as outside of Europe into Egypt, Morocco and Turkey, while Boots had expanded into the US and Russia.

The principal activities of the two companies before the merger were in the wholesale of pharmaceuticals and health and beauty products in the case of Alliance UniChem and in the retailing and manufacture of the same kinds of product in the case of Boots, which has a chain of over 3,000 retail pharmacies and 380 distribution depots.

The merger, which was accomplished through the issue of new shares, split almost equally between Boots and Alliance UniChem shareholders, creating a company with a value of about €10 billion at the time and employing some 101,000 employees, 55% working in Boots.

Reasons for merger

Alliance Unichem justified the merger at the time by stating that it would enable the enlarged company to ‘enhance (its) offering to the independent (retail) chemist’, according to the Executive Deputy Chair of Alliance UniChem, Stefano Pessina. For Boots, it reduced the company’s reliance on retail outlets at a time when cheap healthcare products were increasingly being offered by large supermarkets. In addition, the merger created the potential for cost savings in the form of 1,000 job cuts or 1% of the total workforce announced initially.

The main reason for the merger was that it was expected to generate gains from the larger scale of operations and would allow the company to widen its product range. (What was expected from the subsequent takeover by Kohlberg Kravis Roberts was less clear, although it seems that the largest shareholder, the deputy chairperson, considered the company to be undervalued and was willing to be involved in a buy-out worth €15 billion, 50% above the value of the initial merger.)

Involvement of trade unions/employee representatives

The company consulted with the Union of Shop, Distributive and Allied Workers (Usdaw), the main trade union represented in both parties to the merger, but only sometime after the merger was announced. Nevertheless, the trade union’s initial position was one of support for the merger, regarding it as an incentive to strengthen both companies and, therefore, as an opportunity to strengthen the job security of their members. According to the General Secretary of Usdaw, John Hannett, ‘(the) merger is designed to make sure that the new company has enough firepower to meet the challenges from the supermarkets’. Indeed, both parties to the merger emphasised the benefits that would arise from the larger scale of operations and the greater scope for international expansion. A year after the merger, Boots announced a major expansion in Ireland, which was expected to lead to the creation of 800 additional jobs across the country between 2006 and 2011.

Effects on employment

By the time the merger was completed in April 2006, shareholders were told that the number of job cuts had risen to 2,250 positions, mainly in administration, with the possibility of more later as the two companies gradually integrated their distribution networks. The cuts were to be achieved, if possible, by natural wastage.

The takeover by Kohlberg Kravis Roberts prompted fears that job cuts would increase further. According to National Secretary of the GMB general trade union, Paul Maloney, the trade unions believed that the price paid for the company could put pharmacies at risk and called on the
government to ask the private equity company ‘to explain how the numbers add up’. It is difficult to gauge what has happened in practice, since privately-owned companies are not obliged to disclose as much information.

While trade unions have secured assurances that terms and conditions of employment would not change, concerns remain that the company might introduce changes in the future. In early 2008, a dispute arose at Boots Logistics in Nottingham in the East Midlands region of the UK over changes to terms and conditions resulting from moves to centralise warehouse and distribution activities, with Usdaw members voting to take industrial action. According to the company, however, a fair deal had been offered and employees at the site would be among the best paid in their field of activity in that particular region. The outcome of the dispute was uncertain at the time of writing.

Outcome for company

The strategy following the merger appears to have been broadly in line with the plans outlined at the time, with some rationalisation of administration and some international expansion, although the subsequent takeover by Kohlberg Kravis Roberts was not foreseen.

Wider consequences

The effects of the two mergers on the local and wider economy have so far not been significant because of the modest and gradual nature of the reduction in jobs. However, the takeover by Kohlberg Kravis Roberts has increased concerns about the possible scale of job cuts in the future, given the focus of private equity groups on short-term profits. Such concerns extend to the possibility of downward pressure on wages and working conditions, as well as on R&D and innovation, which could threaten long-term growth. This has become a hotly debated topic in the UK over the last two years, with a formal Parliamentary Enquiry (381Kb PDF) published in July 2007 and attempts by members to amend legislation on the protection of employment following the transfer of businesses.

Sources


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Norway: Statoil and Norsk Hydro

At the end of 2006, Statoil ASA announced its intention to acquire Norsk Hydro ASA, the oil and gas division of the Hydro Group. The transaction was completed after being approved by the EU in October 2007, with the expanded company being renamed StatoilHydro ASA. Both companies were Norwegian specialising in the extraction of crude oil and natural gas.

At 31 December 2006, Statoil employed some 25,435 people worldwide with about 13,130 workers in Norway, while Norsk Hydro had around 5,000 employees, most of them in Norway – the Hydro Group employed some 33,600 worldwide and about 6,950 staff in Norway.

The transaction took the form of a transfer of shares in the new company valued at about €70 billion, with Hydro receiving 33% and Statoil 67%. The Norwegian government, which had a majority holding in both companies, effectively owns 62.5% of the shares.

Reasons for merger

The main motivation behind the acquisition was strategic. By combining the experience and capital of the two companies, the aim was to create a more efficient and financially stronger organisation, favourably positioned both to dominate the domestic market and to pursue opportunities for long-term growth abroad. The acquisition of the Hydro oil and gas division meant that the new company would be one of the largest deep-sea oil and gas producers and would be better equipped to meet challenges in the energy market. The strategy, moreover, was a long-term one foreseeing the importance of expanding outside Norway as North Sea oil and gas reserves were gradually being depleted.

From Hydro’s perspective, its oil and gas business was considered too small to enable it realistically to participate in the international market, which meant that some form of merger or alliance was necessary for this objective to be pursued.

The merged company is not only the largest offshore producer of oil and gas in the world but also the largest company in any activity in the Nordic region.

Involvement of trade unions/employee representatives

Few people were involved in the decision to merge the two companies and the negotiations took place in secrecy. The boards of the two companies, which included employee representatives, were consulted only late in the process, a few days before the plan was made public. The initial response of trade unions was mainly positive, but they withheld their support for the merger until they had reached agreement with the management on a number of issues, including the main principles that should govern the process of downsizing and employee participation in the merger process.

Consultations with the trade unions started immediately after the merger plans were publicised. The main principles were agreed at a meeting in mid January 2007, which included no dismissals, union acceptance of voluntary resignations with severance pay, union participation in the process of integrating the two companies and financial support for the unions to have access to expert advice.

Effects on employment

Since extensive duplication of functions was evident in the two companies, one task was to decide how to allocate fewer jobs among the workforce. The procedure followed was to have all employees apply for the new positions with no guarantee that any worker would remain in their old job and employees from the two companies being treated equally – which was part of the agreement reached with trade unions. In an initial phase concerning land-based administrative activities, about 2,500 of some 9,000 employees were made redundant. The second phase in 2008 involved the offshore and land-based production sites, which employed some 7,300 people, of whom around 925 were to be made redundant.

The aim was to achieve the intended reduction in jobs through voluntary redundancy and early retirement, with financial support for those taking up jobs requiring relocation. Workers aged 58 years and over were, therefore, offered early retirement with particularly generous compensation, while those agreeing to move from offshore jobs to land-based sites were also well compensated. The
objective was to accomplish the downsizing without forcing any worker to relocate and without dismissing anyone.

The first phase of the process is regarded as having been completed successfully. Of the 1,700 employees who were 58 years old or over, some 1,470 accepted early retirement. Older workers, therefore, disproportionately represented among the employees leaving the company. Moreover, no workers have been dismissed and staff have been assigned to new positions voluntarily.

Outcome for company

The strategy planned by the company seems to have been followed to a large extent and the deadlines set for rationalising the operations of the two companies have so far been met. A significant effort has been made to avoid conflict in a situation where it is important to maintain support for the reorganisation process.

No significant effect on the local economy is evident. StatoilHydro headquarters have remained in Stavanger in southern Norway and the downsizing process has occurred without major consequences. In the future, it can be expected that the position of the company on world markets will be strengthened with potential spin-offs for subcontractors and the Norwegian economy in general. Although the main expansion of the company’s operations is likely to occur abroad, it is equally likely that the company’s main administrative base and its R&D activities will remain in Norway.

John Morley and Terry Ward, Applica

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