



Eurofound

# Employee involvement in companies under the European Company Statute (ECS)

## Case study: Elcoteq SE

**Profile of the company and the nature of social dialogue**

**The negotiation process of employee involvement**

**The representation body (SE works council)**

**Board level representation**

**General evaluation**

**Authors:** Dániel Mester and László Neumann (Institute for Social Policy and Labour, Budapest)

**Research managers:** Christian Welz and Jean-Michel Miller

**Research project:** Employee involvement in companies under the European Company Statute

## Profile of the company and the nature of social dialogue

Finnish Elcoteq is a relatively young company in the electronic manufacturing services sector. The company's predecessor, Lohja Corporation, was established in Finland in 1984 and Elcoteq was bought out as an independent company in 1991. It has always manufactured various electronic and micro-electronics systems, which, given the boom in mobile communications, led to fast growth. Today, Elcoteq Network Corporation is one of the 10 most important companies worldwide in this industry, led by Flextronics and Foxconn. In 2009 the company's net sales revenue was EUR 1,503 million, but due to the crisis, this is less than half of its revenues in previous years. The company is present in 15 countries, with subsidiaries outside Europe in China, India, Mexico and Russia. It employs about 12,000 people all over the world. Elcoteq shares have been quoted on the Helsinki Stock Exchange since 1997.

Table 1: *Elcoteq number of employees as of December 2009*

Region	Country	Personnel
<b>Americas</b>	Mexico (Monterrey)	1,467
	Mexico (Juarez)	1,134
	Brazil (Manaus)	861
	OTHER LOCATIONS: Dallas (US)	35
<b>AMERICAS TOTAL</b>		<b>3,497</b>
<b>Europe</b>	Hungary (Pécs)	3,596
	Estonia (Tallinn)	165
	OTHER LOCATIONS: Finland (Salo and Espoo), Sweden (Kista), Luxembourg, Switzerland (Zug), Russia (St Petersburg)	179
<b>EUROPE TOTAL</b>		<b>3,940</b>
<b>Asia-Pacific</b>	China (Beijing)	1,406
	China (Dongguan)	609
	India (Bangalore)	583
	OTHER LOCATIONS: China (Shenzhen), China (Hong Kong), Korea (Seoul), Japan (Tokyo)	66
<b>ASIA-PACIFIC TOTAL</b>		<b>2,664</b>

Source: *Elcoteq Annual Report 2009*.

The company has two main production profiles: system solutions and communication devices; and consumer electronics (primarily television sets). Telecommunication devices make up over 70% of the company's sales. The strategic objective is to expand the role of after-sales services, which involves the higher value-added reconfiguration, customisation and repair of the various devices.

Today the company only has manufacturing plants in countries where the preconditions of low-cost mass production are ensured and only has small trade and customer service units in Finland, Germany, Japan, Luxemburg and the US. In 2009, 47% of sales were in Europe, 38% in America and 14% in the Asia region. Elcoteq never ventured into independent product development, which is a totally different and investment-intensive area.

Elcoteq's expansion was primarily made possible by the dissolution of the Soviet bloc. In the restructuring processes during the transition period, a high number of qualified workers were available for wages well below the Western level. Elcoteq's first subsidiary abroad was in Tallinn, Estonia, and it came to Pécs in Hungary in 1998. The manufacturing capacities were built on the other continents after that.

Elcoteq Magyarország Kft. was established in Pécs in 1998 and invested EUR 52 million between 2003 and 2008 in Hungary. The company first appeared as a greenfield investment and manufacturing in Hungary started with 35 employees. By 2000, the labour force had grown to 1,300. When Elcoteq bought Nokia's plant in Pécs in 2000, the number of employees doubled.

By exploiting the fast expansion of the electronics and mobile phone market, the company started to grow quickly both in Hungary and worldwide. The peak of this growth was in 2007 and 2008, when it employed as many as 8,000 people in Hungary. At that time it had three units in Pécs producing electronic products and equipment. The company became the biggest industrial employer in the city of Pécs and in Baranya County. In addition to its units in Pécs, a European Centre was established in Budapest in 2005. Units at dozens of locations on three continents, including Arad (Romania), two sites in Finland, Tallinn, Mexico, St Petersburg, China and India, were doing assembly work, but they do not supply each other; only the knowledge related to manufacturing is transferred.

These plants produce on order for clients who have a contract with Elcoteq. The individual plants are free to decide only on matters of cost management and human resources. Around 40% to 45% of the costs of manufacturing a product are made up of the cost of parts – 10% to 12% is wages and the rest is transportation, logistics, etc. Before 2007, the company was hit by several crises. While Elcoteq has always tried to have orders from several clients, for seven or eight years Nokia was its main client. However, Nokia stopped ordering from Elcoteq in 2006, which was a major blow to the company, topped by the economic crisis. Shrinking markets and financial difficulties led to the closure of several plants (Arad, Finland, Germany, St Petersburg) and the European Centre in Budapest as well as to the sale of a large part of the Estonian plant to Ericsson in 2009.

The Elcoteq Corporation has changed its organisational structure several times. Up to 2008, its units were managed from continental (Europe, America, Asia) centres. Currently there are two product divisions: mobile phones and industrial electronics; and audio and audiovisual technology.

The company was transformed into a European Company by making only its centre an SE while the Hungarian Elcoteq and the other subsidiaries remained individually registered national companies. As far as the headquarters' motivation is concerned, Jouni Hartikainen, president and CEO, said:

*'Elcoteq wishes to be among the first companies to exploit the benefits of conversion into a European Company. This will support our reputation as a pioneer and globally operating company, as well as creating greater international visibility both in Europe and elsewhere in the world. While respecting its Finnish roots, the company wishes to forge a clear European identity for itself.'*<sup>1</sup>

---

<sup>1</sup> Source: Proposal by the board of directors on conversion into a European Company, Elcoteq press release, 8 October 2004.

As for industrial relations, at the time of the establishment of the SE, trade unions had different density and bargaining clout in the three most important countries. While trade unions were traditionally strong in Finland, in Estonia there was no significant trade union independent from the management. According to the union advisor, the workplace culture differs between the various countries. In Finland, union coverage is 94% in metallurgy, while Hungary is more like Germany, with lower unionisation and a rather cooperative orientation. The Estonian Metalworkers' Trade Union has as few as 1,200 members nationally, who – according to the Hungarian opinion – represent the culture and values of the socialist regime. At a time when a total of 3,000 people were employed by Elcoteq in Tallinn, only 120 of them were union members, most of them ethnic Russians. In Arad (Romania), trade union coverage was minimal and the union operated poorly.

There has been a trade union since 1998 in the Hungarian plant and a works council (WC) operates there too. The local trade union is a member of the Metalworkers' Unions (Vasas Szakszervezeti Szövetség) but its membership has fluctuated over the past 10 years. The peak was 800 members, but currently, due to layoffs because of the economic crisis, membership has dropped to 400 active and 100 passive members. Members are primarily blue-collar workers because salaried employees are much more reluctant to join a trade union. Apart from taking care of daily routine tasks, the trade union has successfully protected wages and jobs and the collective agreement is renewed annually. As for its content, it is very rich by Hungarian standards. The local works council makes decisions on and manages the spending of the welfare fund (sports, recreation, aid, non-wage benefits). The relationship between the WC, the trade union and the management is good and is highly cooperative, according to the respective parties. During the sometimes several-months-long negotiations over redundancy and wages, the management talks with the trade union and the WC together, regardless of the statutory competence of the respective interest organisations.

### The negotiation process of employee involvement

The selection of the Hungarian delegates to the special negotiating body (SNB) was relatively simple: they were chosen by the works council, as required by Hungarian law. As a first step, the leadership of the trade union and the WC members were trained (legal education, tasks, potential failures, etc.). The SNB negotiations were dominated by the Finnish trade union, assisted by a Finnish trade union advisor. The most important clash with the management at the negotiations was that the Finnish trade union demanded employee representation at the board level of the SE. This demand was not met because apart from resistance from the management, the predecessor company had no employee board-level representation either. SNB negotiations were finished by reaching a compromise: a representation body (RB) was set up with an authorisation similar to that of the European works council – it meets twice a year and is informed and consulted. A three-member working committee was also established to maintain contacts between RB meetings. At the same time, in exchange for waiving board representation, the management promised the RB that they would inform the chair of the working committee about their agenda before every board meeting as well as about the decisions afterwards.

The established RB consisted of 13 members: five from Estonia, four from Hungary, two from Finland, one from Germany and one from Sweden. Nevertheless, just like the SNB negotiations, the RB was dominated by the Finns and its first chair was Finnish. Yet the majority of the employees were in Pécs, Tallinn and Offenburg – the site in Finland had practically no manufacturing capacity, only management and white-collar employees with different problems and interests than factory workers.

The SNB agreement includes the starting number of RB members as well as regulations on how many delegates it should include from the different countries. Interestingly, there is no rule on the minimum number of employees for representation, so even if there is only one employee in a country, he/she is entitled to individual representation. (This will be important for the later transformation of the company.)

When the SNB negotiations were completed in 2006, the Hungarian interviewees thought that the agreement was very similar to the existing EWC agreements, since board-level participation was not achieved. However, they were very satisfied with the enhanced list of issues to be consulted on and were especially proud of the special provisions that make information available before and after the board meetings. To sum up the achievements, they were content with the provisions ensuring information on the group-level issues, which can duly complement the regular local information session on the plant-level issues.

*‘In essence, an EWC was created. The main thing is European-level information. Of course we have no veto power on issues such as closures or relocation; we cannot block such moves. We won’t have a decisive say in these issues, but we will be able to influence how these things are implemented. We have precedents of this in Pécs, where our sensible opinions were taken into consideration by the management.’<sup>2</sup>*

In 2006, Elcoteq SE announced that it would transfer its domicile to Luxembourg. The formal decisions on this transfer were made in the spring of 2007 and it became effective on 1 January 2008. As the global HR manager explained:

*‘At that time Elcoteq was still a dynamic growth company, with an ever-increasing number of facilities in Europe, and it was thought that taxation in a single country would be beneficial for the company. Unfortunately, later on developments took a different direction and did not justify such hopes.’*

### The representation body (SE works council)

So far, two two-day RB meetings have been held (in May and in October). RB members met on the first day, while on the second day a two- to four-hour meeting was held with the management. A presentation was given by the CEO or the CFO on the queries the RB had submitted in advance, followed by a questions and answers session (for instance: who are the buyers, what products are being manufactured, what changes are expected). After that, the RB gave their opinion and asked further questions. However, the RB members are highly critical of the information received at these meetings. After the meetings, a two- or three-page memo was drafted. The main complaint reported by RB members was that the management did not say anything that was not public anyway. For instance, they were given the quarterly data translated into all languages, which is available on the Elcoteq homepage since the company is on the stock exchange. They said,

*‘We expected more information on the company’s business situation, such as the change in the mix of buyers, plans on selling or buying plants or relocation of manufacturing capacities between sites, etc.’*

The working committee, made up of employees from the Tallinn plant, the Finnish centre and the Hungarian plant, meets between RB meetings. (Currently, the RB chair is Hungarian.) In case of extraordinary circumstances, the working committee could be convened, but this has not happened yet, nor with the RB. Interpretation is provided at the meetings of the working committee and the RB. The working committee’s most important function is to make preparations for the RB meeting.

---

<sup>2</sup> For further details on the negotiations of the SE agreement, see Stenstrand, T., Bruun, N. and Neumann, L., *Elcoteq SNB negotiations – experiences and procedures*, 2006.

The SNB agreement regulates in what cases and in what way the composition of the RB should be changed. As the number of employees has significantly changed because of recent plant closures, both the composition and number of members of the RB has changed. The last such change took place when a large piece of the Tallinn plant was sold. To base the RB representation on the number of employees could be complicated because the company uses many agency workers to make employment flexible. Naturally, temporary workers do not count as employees and thus are not represented in the RB.

The first change in the RB took place in May 2007, when the position of the chair moved to Pécs, the largest manufacturing site. As of April 2010, the RB had nine members from Pécs and five from other places (previously, Arad and Tallinn had three delegates each). Non-Pécs RB members are currently delegated from Tallinn, Stockholm, Helsinki, Luxemburg and Germany. The RB has practically become a Hungarian (Pécs) internal affair. The composition of the RB was changed in November and December 2009 in order to reflect the new composition of the European workforce. The Hungarian members of the RB are jointly elected by the works council and the trade union and essentially the leadership of the two organisations delegate themselves to the RB.

The history of the RB can be divided into two phases: the first is when the RB was chaired by the Finnish and involved a Finnish expert; the second is the Pécs chairmanship and involves a Hungarian expert. The first phase was characterised by a common cultural background and a good relationship between the RB and the management. At the same time, the interests of several manufacturing sites in Europe were given less attention in this phase. By electing a Hungarian chair, however, the lack of information, trust and personal contacts have become permanent. The distance, both literally and symbolically, between employee interest representation and management has grown. While RB members acknowledge the problem, they have failed to make efforts to solve it. Although formally information is given in compliance with the requirements of the SNB agreement, the lack of information was huge; for instance, the chair of the RB was not informed before the closure of the plant in Offenburg. Similarly, the RB was informed about closing the plants in Arad and Tallinn only after the decision was already made.

When the head of the RB was replaced in 2007, promises were made to change the content of the work of the RB and to provide language and general economic courses to members, but the RB members did not appear to be interested. The chairman wrote several letters to RB members in other countries but never received any response. This kind of disinterest has been characteristic of the RB throughout its history. No response was given to queries about working hours, number of employees or procedures at the given unit. No real communication between RB members has ever been established – except for Pécs, where it was easy to do so inside the plant. One of the reasons why there was a lack of interest is that the RB member in Tallinn works three shifts on the line and the Finnish representative is in a very different situation with different problems. This problem is compounded by the ongoing change of members and by language barriers.

Furthermore, the management has only been minimally present at RB meetings, with the CEO never even appearing for the past 18 months or two years. For a long time, the management considered the RB only as a statutory obligation. The last time the finance officer was present at the meeting, however, he gave the RB useful information on the company's financial situation. After that, unlike the previous occasions, an open dialogue took place.

The Finns tried to manage the information flow to the RB but it never really worked, so the function was transferred to the global HR officer, one of the vice-presidents of the company, who happens to be a Hungarian and knows the key people in the RB. As a result, there was less of a gap in language and information between the management and the RB. If something important happens at the company, the first to know about it from the global HR officer is the RB chairman. Some of this information can be given to RB members, some to employees and some is confidential. The RB has always been kept informed about planned redundancies, closures and the procedures thereof, progress of negotiations as well as who will be affected by the closure, but it cannot block such processes.



As demanded by the RB, they receive information about Elcoteq worldwide rather than only about European subsidiaries. This is important because plants on other continents have serious impacts on the whole of the company. Some plants produced a loss, the effects of which were borne by European plants, primarily at Pécs. The RB is also given the detailed financial records of the plants and has suggested that the unprofitable plants should be closed several times. This suggestion, along with their criticism of the professionalism and quality of work of the management, might partly explain why the Arad and St Petersburg operations have been closed.

There is a contradiction between the participatory framework of the SE and the global corporate decisions. The RB is interested in preserving and expanding European jobs. Outside Europe, communication and industrial relations are solved between local interest representation organisations and the local management. The global HR officer, who communicates with the RB, has no direct contact with local interest representation organisations.

While the new management is expected to be more open to giving certain kinds of information to the RB, it is not known whether this would lead to any structural or content change. Presumably, it would not mean that the management would share strategic information earlier than before. According to the RB chair,

*‘The role of the body should not be overestimated, as was done in Arad, where it was meant to be involved in local affairs such as who should work in how many shifts, wages, etc. None of the other members of RB agreed with this idea.’*

A further problem is that information shared with the RB does not reach the employees. While there is an intranet, it does not work properly. Employees are uninformed about the RB. At the same time, the management also saw that the current RB was ineffective and the information flow specified in the SNB did not work properly. On the suggestion of the global HR officer, a decision was made at the first RB meeting in 2010 to hold regular monthly video conferences involving RB members and the global HR officer. This decision also serves the management’s cost-saving intentions, as they want to have only one annual meeting instead of two. The RB agreed on the condition that if the new system proved to be viable, they would agree to have only one annual meeting as of 2011. Besides the monthly video conferences, the RB chair will continue to receive confidential information as before.

### **Situation of interest representation at national/local level**

So far no European-level trade union has participated in the consultation process. During the Finnish chairmanship, a Finnish advisor assisted the RB, whereas the Hungarian chairman invited Károly György, the officer of the National Association of Hungarian Trade Unions (MSZOSZ) in charge of international affairs, to act as advisor. György had ambitious plans in the areas of training and information flow and suggested that the RB should establish contacts with sectoral trade unions in the given countries as well as with the works councils of Elcoteq’s clients. All of these plans failed. The advisor believes this was because of RB members’ lack of motivation and appropriate knowledge.

At the Hungarian plant, interest representation has been weakened by a growing personal conflict between the works council and the RB chair since mid-2009, when the chairwoman of the works council became the elected president of the trade union. As a result, the trade union split into two and the chair of the RB (the former trade union president) lost his full-time status as union president and now serves as the RB chair while doing part-time shiftwork at the plant. Presumably, the underlying cause of the conflict is the shrinking membership due to redundancies. What caused the trade union split was the president’s dynamic unionisation efforts to cover temporary workers too and her plans to build an essentially service union. To raise the necessary funds, she refused to pay membership fees to the Metalworkers’ Union, from which she was expelled.



## Board-level representation

As mentioned above, the SNB negotiations failed to achieve employee representation on the Elcoteq SE board. However, the RB chair is consulted before management board meetings and receives so-called balance scorecards – a collection of balance sheets, objectives and other documents. However, this information can only be used by the RB chair confidentially and he is not allowed to disseminate it. The RB continues to receive little information, including a short report on board meetings with about five clauses about what happened at the meeting, which fails to include any operative information. With the introduction of the monthly video conferences after the European Management Team (EMT) meetings, however, this practice may change. Naturally, even then there will be information not made available to the RB prior to decision making. The global HR manager said,

*‘For instance, information about external contacts is especially sensitive. A further difficulty is that decisions are sometimes made in the last minute, late at night. In such cases preliminary information is limited to saying that solutions are being sought for specified issues.’*

## General evaluation

There were several reasons why Elcoteq decided to become a SE and to relocate its headquarters. Apart from fiscal and tax reasons, the establishment was also motivated by public relations interests.

With regard to employee involvement, the analysis shows that after the SNB negotiations, the RB was by and large neglected by the management and no communication took place between sessions. From the point of view of the employee members in the SE works council, the management also did not pay adequate attention to the opinion of the RB. The devaluation of the RB is also reflected in the fact that when it was established it had an EUR 200,000 annual budget, which currently is only EUR 24,000, even though the annual meetings have involved the same type of costs over the years (e.g. interpretation, hotels, travel).

Due to the frustrating contextual conditions, RB members are demotivated and are not engaging and communicating actively, according to the external advisor. The reason for this is that the RB does not have any decision-making or consultation competence and operates primarily as an information forum, but does not function sufficiently even in that capacity. To improve that, they should be informed more frequently than twice a year. The management’s suggestion that monthly video conferences should be held may lead to positive developments, which the management currently appears to be committed to. The global chief HR officer, who is also one of the vice-presidents of the company, thinks that 90% of RB members are motivated and cooperative. As the global HR manager put it,

*‘The goal of the management is to have input from RB and create a trustful and two-way communication with them, which could help the management to share important information with employees as well as to receive kinds of information it could not otherwise obtain. While there are employee satisfaction surveys at the company, they fail to play such a communications role.’*

### **Sources and interview partners**

This report relies on the authors' previous studies on the establishment of the SE and SNB negotiations at the company as well as available published and internal information (annual reports, press releases). Furthermore, the empirical evidence presented in this analysis is largely derived from interviews with the global chief HR officer, who is also one of the vice-presidents of Elcoteq, and two members of the SE works council from Hungary, one of whom is the current chair of the RB and its working committee. One other interview was conducted with the current trade union expert involved in the work of the RB. This advisor is an officer of the National Association of Hungarian Trade Unions (Magyar Szakszervezetek Országos Szövetsége, MSZOSZ). All face-to-face interviews were conducted by the authors between October 2009 and April 2010.