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FROM THE INSIDE OUT

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European Transformation: Overcoming Labor Law Obstacles When Change Is Essential

Companies seeking to transform their operations in Europe face stricter labor laws than in the U.S. and varying regulation in each country, which can make it more difficult to reduce headcount or reorganize divisions quickly. Negotiations with labor unions can be protracted and attract negative publicity for necessary changes – French train services have been hit by months of strikes this year, for example, as workers protest reforms designed to prepare state-owned railway company SNCF for competition when its 81-year monopoly ends in 2020.

However, there is a strong demand for transformation among companies operating in Europe, as there is everywhere else. All companies must stay relevant amid the technological disruption impacting industry, and keep costs down at the same time. In Europe, companies are also seeking to make the most of a recovering eurozone and a host of business-friendly reforms in some of the largest countries.

Here, we consider how companies can successfully work with some of the biggest obstacles to transformation in France and Germany.

France

Having a great public story to tell, and flexibility in the order of a transformation plan's execution are the key elements, says Tarek Hosni, managing director with Alvarez & Marsal in Paris.

Politically, President Emmanuel Macron's approval ratings may be struggling, but he has defied expectations to successfully reform both labor laws and France's tax regime – the corporate tax rate will be cut from 33 percent to 31 percent next year, and fall to 25 percent by 2022. This summer's controversial rail reforms were part of a range of measures designed to make France's economy better able to compete with neighbors such as Germany, and to reduce unemployment.

These positives for business must be balanced with an engaged and often hostile public. As recent disruptive protests over an increase in fuel taxes have demonstrated, public support for change is hard won.

"In France, there are three dimensions companies must take into account: public opinion, which is not really business friendly; the interests of the state, because France is a very politically engaged country, and the unions, both at the local and national level," says Hosni.

As soon as possible job cuts are discussed, union leaders in the company will seek help from national union representatives, who will report the plans to the media, says Hosni. For companies with more than about 500 employees, any staff cuts will be widely reported.

However with the right approach, "anything is possible," says Hosni. "You can overcome all these difficulties if you are building a future for the business and you have a good story to tell."

In addition to winning the support of union members, politicians and the wider public for a transformation plan, companies may need to be a lot more flexible and tactical about the path they take to achieve the necessary changes.

"In the U.S. you can set a plan and go from step one to step two, but in France you might need to take step five first, and come back to step one and step two at a more favorable time," says Hosni. "The ultimate goal is the same, but the way you arrive at it may be different."

Germany

Patrick Siebert, managing director with A&M in Hamburg, says that a good relationship with the relevant works council is fundamental to a transformation's success in Germany.

The councils (employee groups set up within companies to represent the day-to-day interests of staff on issues such as pay) are more cooperative than labor unions and talking to them from day one of a transformation onwards is crucial.

"Works councils tend to have a very good understanding of what's going well and what's going badly at the company, and so they support improvement plans for the future," says Siebert. "By contrast, unions tend to follow their own agenda."

"If they feel informed, works councils usually work well with us," says Siebert. "They're interested in making change happen and agreeing on specific measures."

That's not to say that unions are not important too. Germany reformed its labor laws and costs almost two decades ago under chancellor Schröder´s Agenda 2010, in order to increase flexibility and remain competitive with manufacturers in lower-cost economies. Germany solidified its position as Europe's leading economy.

As a result, labor unions hold less sway than in France, though they still have the power to disrupt. Amazon's operations in the country have been hit by strikes for years, most recently on Black Friday, as workers seek better pay and conditions. Retail unions also tried to stymied plans of German retailers to reclassify themselves as logistics companies, which have lower minimum wage requirements than retailers, in order to compete with online-only rivals, says Siebert.

A Need to Transform in Germany

Germany's powerhouse industrial sectors are profitable for now and relevant in the face of competition, but Siebert warns against complacency.

"Battery production, platform/mobility concepts or technology know-how are just examples where German companies already lost competitiveness. Germany´s 5G mobile readiness is ranked far behind China, South Korea, US or Japan (but will be required for i.e. autonomous vehicles). The last economic downturn, resulted in a rapid dry up of the financial markets would require a significant change in operating models/performances," says Siebert.

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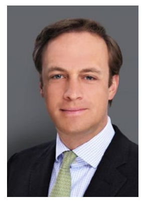

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