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Appetite for Change is Growing in Europe

European companies have often lagged the U.S. in their appetite for transformational change: a combination of labor laws, powerful unions and stagnant growth across the region have frequently held back management teams from making the tough choices needed.

However, across Europe the desire for transformational change is growing as [economic prospects improve](#). Companies are being spurred by supportive political changes in some of the biggest economies, an increase in activist attention and the same rapid pace and scale of business model disruption that is affecting organizations globally.

“Businesses are feeling more confident, conditions are more favorable, and companies want to get fit and have leaner operations – they want a crisper and more coherent business focus,” says [Tony Alvarez III](#), head of Alvarez & Marsal’s European practice.

The economy has been sclerotic across the eurozone since the financial crisis of 2008 but the region grew at its fastest pace in a decade in 2017, and sentiment has remained strong in early 2018; investment and exports are increasing.

“There is a lot that was swept under the rug in the past 10 years,” says Alvarez. “With the rug coming up, there is a lot of sweeping to do.”

In France, President Macron has succeeded in [passing labor market reforms](#) which make it more straightforward for global companies to close loss-making plants and reduce the risk of legal action if they dismiss staff. The reforms also allow companies to negotiate directly with employees rather than having to stick to industry-wide agreements.

Employers including carmaker PSA have already [announced plans to reduce headcount](#) using the new, more flexible rules to cut jobs which can be automated or are cheaper to outsource. IBM and French bank Société Générale are also planning to [offer voluntary layoffs](#) in the country as a result of the new legislation.

In Germany, where the economy remained strong throughout the eurozone crisis and continues to thrive, one of the largest labor unions has [reached an agreement on pay](#) after a series of strikes affecting automakers and other key industrial groups.

“We are seeing the move towards modernization of the rules,” says Alvarez. “In Germany for example, we have continued to see more pragmatic labor unions due to the need to be competitive. They are keen to retain innovation, technology and strategic know-how, and respond to the challenges coming from developing countries. These are the right long-term decisions.”

To be sure, political obstacles to change remain: in Italy, this month’s election ended with no outright winner, which will inevitably lead to [further delay to vital economic reforms](#).

However, the need for transformational change is also driven by the realities affecting companies in every developed economy. “If your footprint was built with a certain set of cost and infrastructure inputs and those inputs have changed, that drives the need for significant change,” says Alvarez. “You are having to squeeze more out of operations to survive. If you aren’t innovating then you must reduce cost because developing economies are getting better at the game and becoming more efficient.”



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