“Reflections on current EU legislative reforms and on recent jurisprudence in regard to mergers, acquisitions and take-over-bids. Deliberations on alternative solutions to restructuring in order to make the process a success for all stakeholders and employers.”
PROGRAM

MONDAY - 14.10.02 - 3.00 p.m. to 6.30 p.m.

Chair: Christa RANDZIO-PLATH, Chair of the Committee for Economic and Monetary Affairs

INTRODUCTION

“A pro-active approach to industrial change. Mergers and Restructuring”

speakers:

➢ Prof. Maria Joao RODRIGUES, Member of the Commission's High Level Group
  “Managing Change”
➢ Barbara GESTENBERGER, Research manager, Dublin Foundation

“The point of views of the ETUC”

➢ Willy BUSCHAK, Confederal Secretary

PANEL

“Problem of restructuring and mergers within different service sectors”

➢ Robert GOEBBELS, MEP, PES Group Vice-President on Economic, Employment and Social Affairs
➢ Prof. Hans SCHENK, Utrecht University and GRASP Research
➢ Ken PERRY, National Secretary, Amicus MSF Section, UK Trade Union, Member of UNI-Finance
➢ Joëlle SIMON, Director of the Legal Services of MEDEF

DEBAT
TUESDAY 15.10.02 – 9 h à 12 h 30

Chair: Stephen HUGHES, MEP, PES Coordinator, Committee for Employment and Social Affairs

Welcome by Enrique BARON CRESPO, PES Group President

INTRODUCTION

“The present situation of industrial change”

Orateurs:

» Dietmar HEXEL, DGB
» Reinhard KUHLMANN, EMF

“The impact of European social policy on restructuring”

» Fernando VASQUEZ, European Commission, DG Employment

PANEL

“Problem of restructuring and mergers within traditional industry sectors”

» Eryl Mc NALLY, MEP, PES Coordinator Committee for Industry, External Trade, Research and Energy
» Guy STANDING, Head of the ILO Programme on socio-economic Security
» Stefano PALMIERI, IRES-CGIL
» Avocat Menzi SIMELANE, Commissioner South African Competition

DEBAT

CONCLUSIONS: Robert GOEBBELS, PES Group Vice-President on Economic, Employment and Social Affairs
The Mergers & Acquisition tale:

The management kisses the frog that remains a frog.

Now the princess that kissed the frog turns into a frog herself

Stefano Palmieri, economist of IRES-CGIL,
Brussels 15th of October 2002
Industrial change may be gradual or sudden. It may be driven by a great number of factors including political or financial upheaval, technological innovation, shortened production cycles, changes in consumer pattern preferences locally or globally. For many firms corporate restructuring has been inevitable as firms need to be more responsive to fluctuation and changes in demand. For others even when corporate results are positive restructuring can occur as a precaution. According to the European Commission, the situation of increased restructuring activity has led to significant increase in job losses. Calculations about redundancies “based on the announcement of lay-offs during the first nine months of 2001 in media reports put the level of redundancies at 230 000 in the Eurozone and about 350 00 in the European Union”.

Against this setting, the PSE group organised a two-day seminar on the economic, employment and social implications of restructuring. The seminar was widely attended by various trade union organisations. It included speakers such as Advocate Menzi Simelane from the South African Competition Authority, Professor Hans Schenk from Utrecht University and Maria João Rodrigues Member of the Commission's High Level Group on Managing change, Willy Buschak from ETUC and Guy Standing from the ILO. Mrs Randzio-Plath, chair of the Committee for Economic and Monetary Affairs, chaired the seminar during the first day. Mr Stephen Hughes, PES co-ordinator in the Committee for Employment and Social Affairs chaired the seminar the following day. PES Vice-President and coordinator in the Committee of Economic and Monetary Affairs, Mr Robert Goebbels summarised the discussions of the seminar and developed some political conclusions. As we shall see in the following paper, sustainable economic growth as well as strengthening competitiveness requires a new focus on the social aspects of restructuring.

1. European Commission, Anticipating and managing change: a dynamic approach to the social aspects of corporate restructuring, First phase of consultation of the Community cross-industry and sectoral social partners, p. 3
2. For complete ‘speakers’ list, see programme
THE FAILURE of MERGERS and ACQUISITIONS –
The Academic Imputation

The 1990s have seen a Mergers and Acquisition (M&A) wave with unprecedented peaks in both the EU and the US (with around twenty times fewer mergers in Japan). For over two decades Professor Hans Schenk has conducted a series of research, on the performance of M&A. Existing academic literature on the matter show that something has not been right. Indeed, Dickerson et al. (1997) found that for a panel of almost 3000 UK-quoted firms, in the long run acquisitions have a systematic detrimental impact on company performance as measured by the rate of return on assets. In these firms it appeared to be a permanent reduction in profitability following the acquisition. But this finding is not an exception. Schenk writes: “…the most common result of merger performance studies in such industries as diverse as manufacturing, advertising and banking is that profitability and productivity, variously measured, do not improve as a result of a merger or improve less than could have been the case without a merger”.

During the seminar, Professor Schenk outlined the general performance of M&A in Europe. The compelling evidence shows that between 65-85% of M&A fail to create economic value or profitable market power and that total returns are negative. Apart from a whole set of negative trends, productivity trails behind R&D inputs and outputs decrease. Astonishingly, since 1996 all mergers in Europe have created negative aggregate value and in 1999 M&A suffered their greatest loss. These negative effects lead to economic stagnation, which turn into economic slowdown.

In general, Professor Schenk argues that larger mergers are not undertaken for the creation of economic wealth nor for the appropriation of monopoly rents but rather for strategic comfort. In other words, the result of strategic positioning games among large interdependent players. He maintains that the high incidence of non-wealth mergers is not the result of failed implementation techniques. Rather the existence of strategic interdependence under uncertainty may compel management to go ahead with the mergers even if these will not increase economic performance. This has had tremendous consequences for economic welfare.

Although, Professor Schenk said that there was no direct impact on employment from mergers, the indirect impact creates indeed job losses as mergers lead to economic decline and recession. Many participants viewed the issue of direct/indirect effect on employment to be a pure question of semantics as the end result was always the same: workers losing their jobs.

Taken all this into account Professor Schenk pointed out that, it would seem obvious that the Commission has in the past approved mergers that have resulted in negative wealth for all of us. Evidently, the current antitrust and competition policies are badly equipped to deal with purely “strategic mergers” as defined by Professor Schenk since their impact cannot be measured in terms of allocate efficiency. The negative effects of mergers and acquisitions can only be countered by modernising competition policy.

1. Hans Schenk PHD, MBA, Professor of Economics and Business at Tilburg University, Erasmus University Rotterdam & Utrecht University – Home Page: http://go.to/hans.schenk
2. Hans Schenk, Large mergers a matter of strategy rather than economics, June 1999
If non-wealth creating mergers should be prevented, then it would seem necessary to add a test for productive and dynamic efficiency to merger control, together amounting to what Professor Schenk calls the “full efficiency test” requiring all large firms involved in M&A to fulfil this test. In general terms, firms would then be required to file an efficiency protocol when submitting a request with the authorities. In case of doubt, firms will have approximately five years to show any efficient increments due to the proposed and temporarily consumed merger, under penalty of demerger. Allocative effects are the tested *ex post*.

In spite of what hitherto been said, Prof. Maria João Rodrigues’ pointed out that in the medium term it is realistic to believe that M&A would have a negative impact on jobs due to the overlapping of tasks of the organisations involved. However, in the long term there would be positive effects as the organisation gains added value and market share. Hence, in the long-run there could be foundations for job creation.

3. Current explanations of the M&A-paradox uses recent advances in game theory and information economics. It appears that introducing minimax-regret decision rule into games of strategic interdependence is able to show M&A observed in real life, especially when combined with managerial concern for reputation instead of wealth creation.

4. Speaking in her capacity as an expert. Also member of the Commission’s High Level Group “Managing Change”
A Pro-Active Approach to INDUSTRIAL CHANGE and THE EUROPEAN MONITORING CENTRE on Change

The Stockholm European Council approved the setting up of the European Monitoring Centre on Change (EMCC). The centre is a European information resource being developed by the European Foundation for the Improvement of Living and Working Conditions. The centre will focus on aspects of economic and social change resulting from developments and shifts in technologies, the organisation of work, production and business models, legislation, working practices and the changing skills market. The aim is to provide data at different levels - regional, sectoral, EU, global, national and company levels - providing users with a single access point to information on change. The EMCC has been designed as a tool to support the understanding, anticipation and management of change.

The centre's proposed prerequisites for a pro-active approach to industrial change include:

1. Based on presentation by Barbara Gerstenberger, Research manager, Dublin Foundation

a) anticipation of change. Within this concept three distinct points were set forth during the seminar, namely:

- the identification and monitoring of drivers of change
- the elaboration of scenarios of change
- the evaluation of the impact on employment

b) Sharing of knowledge, including regular dialogue with employee representatives and on drivers and scenarios of change as well as with local authorities and other actors.

c) Setting up policies and partnerships to improve preparedness of employees and actors.

The EMCC provides knowledge through desktop research, EMCC studies, news and knowledge providers and the EMCC community. This leads to knowledge building in EMCC exchange workshops and seminars. The goal of the EMCC is to put the pieces of the puzzle together and offer information on a pro-active approach. The centre will soon inaugurate its web-based portal (EMCC Portal) with access to relevant websites and databases as well as regular analyses through the so called EMCC Monitor of changes, affecting the living and working conditions of European citizens.
Alternatives to CURRENT COMPETITION Law
- The South African Approach -

Contrary to the European Commission’s approach on competition, competition law enforcement in South Africa provides for merging parties to consider the impact a particular merger will have on employment. The competition authority is obliged to assess the public interest question, in other words how to deal with potential job loss. Companies in South Africa must explain the rationale behind a merger before it is approved. Potential job losses cannot be viewed statically but in a more dynamic mode. For instance, in South Africa, 1 job loss as a direct implication on 7 other workers.

Empirical evidence shows that in general very little consideration is given to the fate of employees in M&A world-wide. It is in fact accepted that there should be job losses as a result of a merger. Nevertheless, trade unions have been included in restructuring. It would be erroneous to state that a broad consultative process leads to results other that those set out from the beginning. Employers enjoy the right to be represented and the South African Commission Authority must consider both sides before reaching a decision on recommendation. Workers involvement has been made a requirement and it is not based on invitation as is the case in the EU. In fact, employees do provide useful information when the information flow is symmetric, information which otherwise would not have reached the authority at all.

Their participation is viewed, as been an important contribution. If the trade unions disagree with their assessment they can appeal to Competitions Tribunal, as well as to the High Court. In South Africa, firms and workers have been able to compromise among themselves.

It is imperative that those managing the restructuring process should be separated from the government’s role as shareholder and from the government’s role as policy maker. This will help to ensure that the government’s shareholder role is not in conflict with its policy-making role.

1. Based on the presentation by advocate Menzi Simelane Commissioner: Competition Commission of South Africa
PROBLEMS OF RESTRUCTURING – Workers Participation, European Works Council and Asymmetric Information Flow

Many trade unions said not to be anti merger per se as there is an understanding for the need of the different industry sectors to be competitive. The criticisms lie with the means of involvement. Management maintains the right to manage capital investments and seem to not want employees involved.

In the same vein, M&A’s must be challenged at an early stage so as to allow others to contribute to the process. M&A’s are planned in the short term by consultants and accountants and thus they are not required to look at the long-term implications. There is also a lack of social planning. Thus, companies figure out how many redundancies are needed but fail to organise post-structuring social planning. Many participants wondered whether serious asymmetry of information lead to workers perform less which in turn contribute to the failure of a specific merger? Too often, company management confronts worker representatives with accomplished facts. Worker representatives are informed only after the merger has been accepted by the Commission, which means they cannot request their right to be consulted in the framework of a merger control procedure and their input in the merger control procedure is wasted.

“The quality and timing of information and consultation is insufficient in terms of allowing employee representatives to influence the outcome of a decision”\(^1\). The problem arises from the low content of information provided as well as the poor timing. Many participants voiced the need to find a truly uniform European regulatory framework relating to the definitions of information and consulting. The information transmitted to the trade unions lacks qualitative substance. It was also stressed that it would be advantageous to develop knowledge sharing processes. In the end there should be information symmetry to all parties both in quantitative an qualitative terms.

Although many of those attending the seminar underlined the need for more initiatives in the field of life-long learning, some mentioned the risks of workers rushing to relearn skills creating an ever-increasing sense of insecurity. It is important to be in control of what individuals want to learn. Access to training for better qualifications are worst for those with few qualifications and in particular women. Some participants asserted that life-long learning is the responsibility for the management of the company. The following questions were raised in this respect: What is the true meaning of life-long learning and employability? Who will be defining the skills that we need? Why not make firms more adaptable, why always workers? Is the sense of investing in people different from investing for people?

Will the increasing number of older workers be able to actually be employed? According to IRES-CGIL\(^2\), from the analysis of the latest study carried out by EUROSTAT on the topic of continued vocational training, “there appears to be a perception of the training tool as a cost element, rather than as an opportunity-resource for the performance of the

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1. Ken Perry, Union Network International
2. Istituto di ricerche economiche e sociali –non profit organisation founded in 1979 in collaboration with Bruno Trentin and Giuliano Amato
company itself”. Anticipating change through a pro-active role of all economic and social players is “based essentially upon the human capital available, and its adequate use.”

In addition, many trade union representatives expressed disappointment with the experiences encountered in the European Works Councils. For instance, according to Stefano Palmieri (IRES-CGIL) the European Work Councils does not give employees the power to alter decision-making. Moreover, it is seen as a tool of management communication system design to facilitate one-way communication. The Work Councils offer a poor transnational communication and co-ordination between employees representatives. Workers want increase consultation rights both at EU and national levels. Some wanted to see the Work Council strengthened achieving an effective implementation of these Councils. Others wanted to see it thoroughly improved as quickly as possibly.

The belief of many trade unions like the European Metal Workers’ Federation (EMF) is that there as been substantial failure of restructuring via mergers as around 80% of big mergers fail destroying company value and destroying jobs. Management maintains that they have a right to manage and do not want employees involved. Trade unions like UNI-Europa readily acknowledges this right to manage “but it must be made clear to management throughout Europe that they have an obligation to manage properly.” M&A must be challenged at an early stage so as to allow others to contribute to the process. A UNI-Europa survey also contests the economic rationale behind the number of mergers. The evidence of this survey indicates that many mergers fail to bring long-term benefit to shareholders in the acquiring company. This organisation states that: “the general public interest should also be seen as a stakeholder, however, the consideration of the public interest is neglected, in the existing Commission merger regime. Firstly, it cannot be ignored that there is a cost to public authorities and local communities when a merger is followed by job losses.”

4. Ditto
5. “The Impact of mergers and Acquisitions in the finance sector on workers, consumers and shareholders”, UNI-Europa
6. Union Network International is the skills and service international launched on January 2000
Despite negative social consequences, corporate restructuring is not only inevitable but also a driving force for change as it contributes to increasing productivity and introduces new technologies. “We should look at the positive side of restructuring”, said Professor Maria João Rodrigues1, speaking in her capacity as an expert. She added that in particular, the enlargement of the EU must also be considered as it will lead to a restructuring of European Industry. The new trade negotiations which will begin in the coming years could also have profound implications for European industry.

It was argued that the Union should be prepared to invest in new jobs, in services, in manufacturing and in agriculture. Thus, it is important that restructuring is not simply opposed. There is a great need for business to find greater capacity for adaptation and anticipation to changes. An important element here are M&A. In 1991 there were 8239 M&A involving EU firms. This number increased to 12 796 in 19992. According to the Commission, the long-term pattern is clearly one of an increase in respect to M&A. Hence, M&A will be a crucial issue for the Union in the years to come. There are a great number of factors that must be considered in relation to M&A including the need for governance in relation to restructuring.

Professor Maria João Rodrigues pointed out that the identification and dissemination of good practice, which in many cases may involve national legislation and/or collective agreements, would be instrumental in coming to terms with the employment and social consequences of restructuring. Thus, new practices are required such as collective wage funds, new forms of wage insurance etc. Collective agreements in some Member States are introducing some innovative approaches such as life long opportunities, savings accounts for training and new kinds of insurance.

It is worthwhile to note that during the first consultation phase with the Community cross-industry and sectoral social partners in anticipating and managing change, the European Commission had previously pointed out essential principles that would support a good practice approach in restructuring situations. These include the following main areas:

- Employability and Adaptability,
- Effectiveness and Simplification,
- External Responsibility,
- Modalities and implementation

Professor Maria João Rodrigues also emphasised the fact that good management must embrace new approaches. This involves a new type of responsibility, which truly includes the participation of the employees and sophisticated human resources management. Business have an interest in helping to maintain their workers’ capacity to adapt and anticipate change. A good framework and conditions are essential to managing the restructuring process. A pro-active approach which supports entrepreneurs, companies with corporate social responsibility, active labour market polices allow people to move to other jobs needs to be developed. There must be strong support for companies with corporate social responsibilities. Furthermore, there is the need for companies facing redundancies to construct social plans. In this respect, local authorities often play a crucial role.

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1. Prof. Maria João Rodrigues, Member of the Commission's High Level Group "Managing Change"
2. European Economy; Supplement A, Economic Trends, No 5/6 – 2000
On the 4th of July this year, the European Parliament adopted a non-legislative resolution endorsing the European Commission’s intention to update existing EU merger so as to take into account the changing economic environment as well as to ensure legal certainty in an expanding Union following enlargement. The Parliament took then the view that the 1997 changes relating to thresholds were too complex and did not bring about expected improvements. There is, therefore, a need to simplify criteria with a view to a more uniform interpretation.

Comment: not long after the seminar took place the Commission lost another legal battle over a merger it blocked as the Court of First Instance said the executive arm of the Union provided insufficient evidence and overestimated the merger’s anti-competitive effects. This would amount to the third defeat this year.
**POLITICAL CONCLUSIONS and PROPOSALS**

Technological evolution and industrial change cannot be opposed. In the same time, an active competition policy is needed. Without competition, supernormal rents would harm consumer interests giving rise to the formation of cartels, oligopolies and monopolies with substantial welfare losses.

Although industrial change should be taken as a challenge, it would need to be better organised. Restructuring within the European Social Model must entail the creation of a win-win situation between employers and employees. A social compromise within the European Social Model should be reached insuring both competitiveness and workers rights. "The European Parliament and the PES group have done an excellent job on the economic and social models but they need to be developed further." 1 Until now it has been that the traditional paradigm of social policy sought to repair the damage created by the restructuring. However, the challenge of the a new paradigm must signify managing restructuring and change so as to anticipate developments and avoid deterioration. It would also seem that after years of experience there is a need of more binding quality of information, consultation and negotiation. This needs to be accompanying with an improvement of the European competition law and workers’ involvement in competition procedures.

Unfortunately, the competition services of the European Commission do not perform the same evaluation on the impact of mergers on employment, on the social framework of those concerned as on competition policy. Indeed, according to the Commission, competition policy cannot follow several objectives at once. It cannot substitute other feeble policy fields. During the past years, the Commission services had to treat some 2.200 merger projects, of which 1.200 in the last two years alone. 1% of these merger projects were refused for hindering competition. No merger was ever stopped due to an excessive negative impact on employment. The Commission considered that the authorised mergers induced some 250.000 job losses.

Many of the demands put forward during the seminar include the need to ameliorate the quality and timing of information provided. In the case of consultation there is the need to strengthen the obligation for a real and fair consultation process and on what concerns consultation, to establish the right for the European Work Councils and trade unions to negotiate the social model of restructuring. For instance, the Collective Redundancies Directive and European Works Council Directive should be subjected to an in-depth review especially with regard to the timing and quality of the information and consultation. Company and competition law have a major impact on how restructuring is conducted. Companies should also have to publish regular social audits of their activities.

Mergers are of course able to create employment, provided that they succeed. It has been argued that M&A rarely achieve their economic objectives. In political terms, the workers and the public can very well accept sacrifices in terms of employment if there is an economic success behind this “reconstructing phenomenon” leading to growth and in the end more jobs. Instead, evidence seems to shows that the majority of M&A fail to create economic value. If, as it is often the case, a merger results in the destruction of

1. Reinhard Kuhlmann. EMF, General Secretary
2. Ditto
employment and at the same time in economical failure, the clear political signal would be to change the rules of the game. In this respect, it seems necessary to deepen the understanding on the intrinsic rationale behind most restructuring processes and mergers. There is a need to consider the economic justification that lies behind a merger as well as the lack of governance.

Although legally a firms belongs to its shareholders, the firm’s bases of existence lays in the hands its employees and workers, in the accumulated knowledge and know-how of those that directs it and run the day to day business. At the European level, it is necessary to impose rules guaranteeing not only that information foregoes all major M&A but that the candidates to a M&A should present an industrial report including projections on the social consequences of these projects. It was felt that the time was ripe for compulsory consultation and social plans that will deal with the impact of mergers. Furthermore, social plans have to provide for equality between men and women in a firm. There is a strong case for arguing that further EU legislation on Merger Control needs to be amended so as to take into account employment aspects. It would be necessary to impose obligatory consultations with the workers’ representatives and safeguard the right to negotiate social plans in order to alleviate the negative consequences of a restructuring. These social plans must include supplementing measures such as opportunities on professional training and the acquisition of new skills as well as equal opportunities for men and women.

The present Commission’s proposal on the Take Over Bid Directive which introduces a new Article 13 on “Information for consultation of representatives of employees” is clearly inadequate. Many participants such as ETUC pointed out that they would like to see a stronger draft of the proposed Directive as the proposal remains silent on the rights of workers in a merger or a take-over. Thus, workers rights need to be strengthen. In the case of take over bids, notably hostile ones which amount to around some 30% of the total, it is not only necessary to listen the management, but it is equally important is pay attention to the employees as well as not to forget the involvement of the local or regional authorities that confront the negative consequences of restructuring.

Ultimately, on the face of restructuring, politics must reinvent itself. It must return to being a conciliator not only between the interests of the capital owners, but above all preserving the interests of the workers.

Besides the proposals already mentioned above other suggestions put forward during the seminar include:

- The creation of a policy framework for restructuring/mergers
- EU sanctions of unsuccessful mergers/restructuring
- A common definition of successful mergers/restructuring
- Recognition of the situation of SMEs in relation to mergers/restructuring –stronger involvement of SMEs
- New approaches in assessing mergers/restructuring in relation to EU competition law
In order to cope with restructuring, industrial relations should play a crucial role at national level. It is necessary for MEPs to work with members of their National Parliaments. Social Partners must also play a crucial role at national level.

More power to ILO in order to handle mergers/restructuring on global level and secure social rights.

Informal contact/negotiation/information of trade unions before the announcement of a merger/take over bids between the Commission and the trade unions concerned.

A European framework on Corporate Social Responsibility and support of enterprises with corporate social responsibility.

The harmonisation of certain tax provisions to counter act unfair company relocations.

A much more effective approach to life-long learning.

Greater responsibility for public authorities – implementation of the Lisbon strategy at local level.

Support of sectoral negotiations between social partners at all levels, including personnel plans, labour contacts, collective wage pension funds etc.

Pro-active approach in anticipating change, sharing knowledge management of successful mergers as well as setting up of partnerships.

Greater participation of trade unions at stake holder level/steering committees of enterprises.

Development of ISO-standards for social management in enterprises.

Employers organisations should claim full rights to participation.