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## ERM Quarterly, Quarter 2, July 2016

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## ERM Quarterly, Quarter 2, July 2016

### Abstract

#### THIS ISSUE

- Restructuring-related legal regulations in focus: Staff information and consultation on collective dismissals
- Case in focus: Brexit vote creates jobs uncertainty in the UK
- Case in focus: UK department store chain BHS closes

### Keywords

European Union, restructuring, job creation, job loss

### Comments

#### Suggested Citation

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## Macroeconomic trends and prospects

The principal political event of the quarter has been the decision of the UK electorate in favour of 'Brexit' from the European Union in a referendum held on 23 June. The outcome was a surprise and went against the counsel of most economists, policymakers and international organisations as well as the majority of elected UK politicians. Business leaders had made it clear that Brexit could necessitate significant restructuring of UK-based operations (see the article on p. 3), as the prospect of a UK departure from the single market could jeopardise market operations. To date, very few concrete announcements of job loss explicitly citing Brexit have been made. Nonetheless, a long period of uncertainty is in store as exit negotiations are unlikely to be concluded before 2019 – and this will have implications for investment, jobs and growth in the UK, principally, but most probably also in the EU as a whole.

Potential Brexit is one factor contributing to more downbeat growth forecasts in recent months. In the latest **OECD economic outlook** (June 2016), the OECD has lowered global growth estimates by 0.3 percentage points to 3.3% in 2017. Growth in developed economies including the EU is forecast to be lower still. It comments that 'the prolonged period of low growth [post-2008] has precipitated a self-fulfilling low-growth trap' and urges a policy shift away from a reliance on monetary policy to more growth-oriented fiscal policy.

## Job creation and job loss at a glance

The ERM recorded a total of 327 cases of restructuring between 1 April and 30 June 2016. Of these, 146 were cases of announced restructuring involving job loss and 167 were cases involving announced job creation; 4 cases involved both job loss and job creation. These cases comprised a total of 79,525 announced job losses and 67,549 announced job gains. In addition, the ERM recorded 10 large transnational cases.

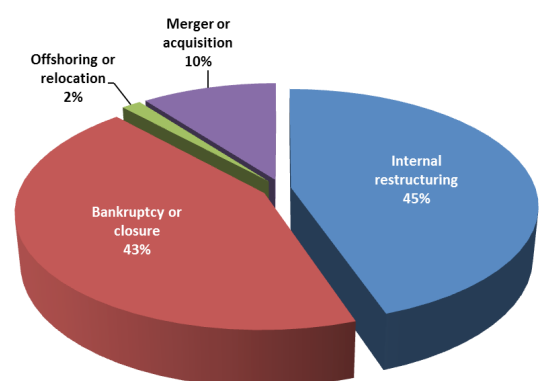
Internal restructuring accounted for 45% of the announced job losses, a decrease from 72% in the last quarter. Bankruptcy and closure accounted for 45% of job losses, while those attributable to offshoring and relocation decreased to 2% from 4% in the first quarter. In terms of geographical distribution, the UK recorded the greatest number of job losses (17,477 jobs), followed by Greece (14,400) and Germany (14,371). The UK also recorded the greatest job gains (12,000), followed by Romania (10,022) and Poland (9,589).

2016 Q2	Announced job loss	Announced job gain
EU28 + Norway	79,525	67,549
EU28 + Norway, change on previous quarter	- 10%	- 2%
Big increases* by country	Greece ++, Finland ++, Italy ++	Netherlands ++, Romania ++, Spain ++, UK +, Hungary +
Big increases* by sector	Public administration ++, Retail ++	Accommodation and food service activities ++, Human health and social work activities ++, Construction ++, Public administration ++

\* Comparing the quarter to the four-quarter moving average; ++ = >100%; + = >50%; excludes country or sector if quarter average and 2016 Q2 <1,000 job losses or gains.

Source: ERM, April–June 2016

## Reasons for announced job losses

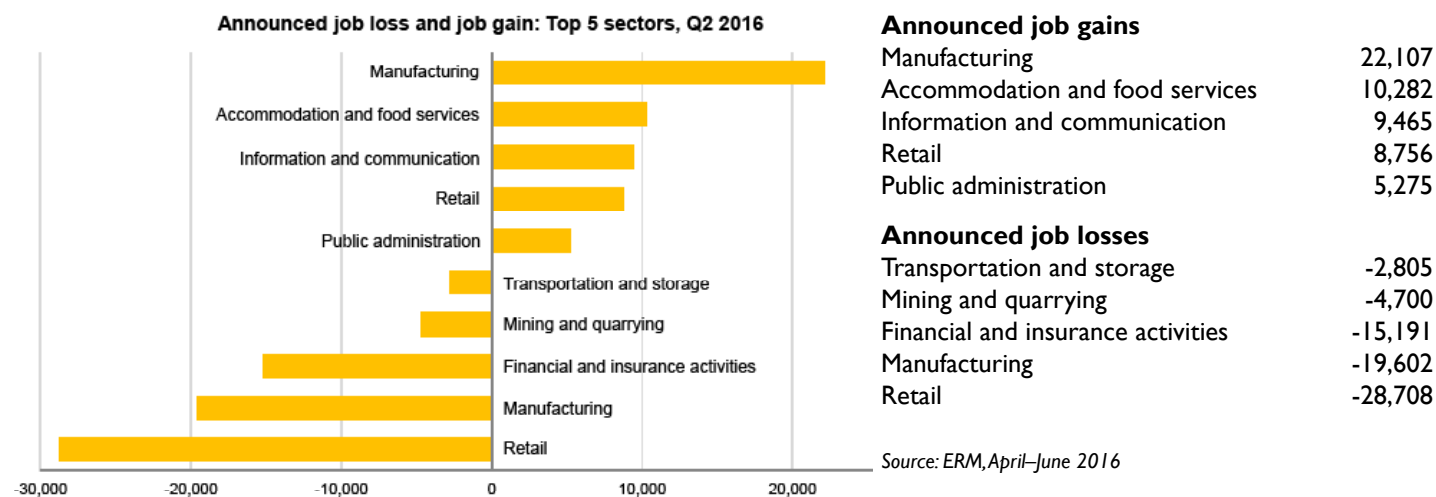


### IN THIS ISSUE

- **Restructuring-related legal regulations in focus: Staff information and consultation on collective dismissals**
- **Case in focus: Brexit vote creates jobs uncertainty in the UK**
- **Case in focus: UK department store chain BHS closes**

## Sectoral distribution of job losses and gains

The figure below plots the top NACE Rev. 2 one-digit sectors in terms of announced job loss and job creation, as reported to the ERM in the second quarter of 2016. The retail and manufacturing sectors reported the most job losses (-28,708 and -19,602 respectively). However, manufacturing also recorded the biggest increase in absolute numbers (22,107), followed by accommodation and food service activities (10,282) and information and communication (9,465). The retail sector also features in the top five sectors for job creation, with 8,756 new jobs.



## Top 5 cases of job loss and job creation

Date	Company	Job losses	Location	Sector	Type of restructuring
28/06/2016	Marinopoulos	13,000	Greece	Retail	Bankruptcy
02/06/2016	BHS	11,000	UK	Retail	Bankruptcy
16/05/2016	Banco Popolare di Milano	2,600	Italy	Financial services	Merger or acquisition
05/05/2016	Monte dei Paschi di Siena	2,500	Italy	Financial services	Internal restructuring
01/06/2016	Ergo	1,800	Germany	Financial services	Internal restructuring

The biggest individual case of job loss during the quarter arose from the bankruptcy of the Greek supermarket chain **Marinopoulos**, where 13,000 jobs were lost. The second biggest case was also in the retail sector, with the bankruptcy of the British department store chain **BHS** (see the **Case in focus** below). The third and fourth largest cases occurred in the troubled Italian banking sector. **Banco Popolare di Milano** announced 2,600 redundancies due to a merger and acquisition process. **Monte dei Paschi di Siena** cut 2,500 jobs in an internal restructuring; the management stated that the reduction of personnel was requested by the European institutions in relation to its 2013 bailout by the Italian state. Finally, **Ergo**, a German insurance company, which is undergoing internal restructuring to adapt to market changes, announced the loss of 1,800 jobs. The company is currently negotiating with the trade unions.

Date	Company	Job gains	Location	Sector
07/06/2016	Domino's Pizza	9,400	UK	Accommodation and food services
08/04/2016	Carrefour	4,400	Spain	Retail
02/05/2016	Magna Steyr	3,000	Austria	Manufacturing
14/04/2016	Ministry of National Defence	2,725	Romania	Public administration
22/04/2016	Buurtzorg	2,554	Netherlands	Human health and social work

The biggest case of job gain reported during the quarter was that of **Domino's Pizza**, which has launched a campaign to recruit 9,400 staff. The chain is embarking on business expansion, with plans to open new outlets in the UK and Ireland. In the retail sector, **Carrefour** will hire 4,400 workers in its supermarkets in Spain on indefinite contracts; the company has set a target to have 85% of its Spanish staff on indefinite contracts. Third place belongs to the Austrian automotive manufacturer **Magna Steyr**, which is expanding its Graz site and plans to create 3,000 jobs. The **Romanian Ministry of National Defence** announced that it is recruiting 2,725 new staff via public competition. And the fifth largest case of announced job gain was the creation of 2,554 jobs by the Dutch home-help agency **Buurtzorg**, as a result of business expansion. The agency hired workers dismissed by the large home-help agency TSN, which was declared bankrupt in March 2016.

## RESTRUCTURING-RELATED LEGAL REGULATIONS IN FOCUS

### Staff information and consultation on collective dismissals

**EU Directive 98/59/EC on collective redundancies** requires employers to inform and consult workers' representatives in the case of collective dismissals and details the information to be provided and the procedures to be followed. The directive foresees various thresholds of announced job loss above which companies are obliged to notify relevant public authorities, but only cases involving fewer than 10 redundancies are exempt in all circumstances.

There are four main phases in the process: notification of the workforce; information and consultation with the worker representatives or the workforce; approval of the agreement by a third party (required only in a small number of Member States); and implementation of the dismissals.

When notifying the trade unions, works councils or workers, the directive specifies that the employer should explain in writing the following: the reasons for the redundancies; the period during which the redundancies will be made; the number and categories of workers normally employed; the number and categories of workers to be made redundant; the criteria used to select those workers to be made redundant; and the method used to calculate compensation (where applicable). In some countries, only some requirements have been made compulsory. For example, in **Croatia** there is no obligation to outline possible mitigating measures. In **Slovakia**, the employer is not obliged to explain the reason behind the decision to dismiss workers.

As regards consultation, this is supposed to start immediately after notification, although in **Portugal** there is provision for an interval of five days between notice and start of consultation. In **France, Germany** and **Norway**, trade unions can avail of external expert advice during consultation, the cost of which will be borne by the employer. In several countries, such as **Italy** and **Poland**, there is no obligation to reach an agreement between parties, and the employer is not bound by the outcome of the consultation. Collective bargaining agreements may amend the minimum legal requirement for consultation procedures, as is the case in France and **Belgium**, for example.

When the consultation is completed, in **Greece** and in **the Netherlands** the labour inspectorate and the public employment service respectively must approve the dismissals. In **Austria**, if the employer provides a sound justification (for example, establishment of a social plan or economic necessity), the public employment service can authorise the dismissals before the 30-day period set out in the directive.

The ERM database on restructuring-related legislation provides an overview of selected national legislative rules related to restructuring. You can browse the database, leave comments on specific legislation or give general feedback at: [www.eurofound.europa.eu/observatories/emcc/erm/legislation](http://www.eurofound.europa.eu/observatories/emcc/erm/legislation).

### CASE IN FOCUS

#### Brexit vote creates jobs uncertainty in the UK

The referendum vote in favour of leaving the EU is expected to have significant implications for employment in the UK. To date, there have been very few concrete announcements of Brexit-induced restructuring, but the signals from companies that these may happen in the not-too-distant future have been plentiful.

There is a general fear that business uncertainty as a result of Brexit could lead to another recession, with negative employment consequences. Sterling has fallen sharply against the euro and the US dollar since the vote, and the economic outlook is pessimistic.

Although it is early days, the main repercussions are likely to be felt in finance, manufacturing and food production. A number of announcements have come from the finance sector, particularly the City of London, which employs more than 360,000 people in financial services. There are fears that investment banks might move staff out of the UK: HSBC and Goldman Sachs had both stated before the referendum that they were likely to do so if there were a leave vote. HSBC had said that it could move up to 5,000 jobs from London to Paris. However, both banks have now declined to confirm these plans, and HSBC has confirmed that it will retain its headquarters in London. Barclays has indicated that it will not transfer jobs away from the UK, although it has stated that if leaving the EU means restricted access to the European market, it may need to hire new employees and boost its presence in another location.

However, the US bank JP Morgan has warned that between 1,000 and 4,000 UK jobs at the bank could move overseas. Fellow US bank Morgan Stanley is also looking at moving jobs to other locations in Europe.

In car manufacturing, Nissan and Rolls Royce have stated that the UK's withdrawal from the EU is likely to affect future investment in the country, but that the precise outcome would depend on the nature of the future relationship between the UK, the EU and the rest of the world. The German company Siemens stressed its commitment to the UK, although it noted that Brexit might affect future UK investment. The US carmaker Ford, which



employs 14,000 people in Britain, said it 'will take whatever action is needed' to remain competitive. Airbus, the maker of the A380 superjumbo, has said that it will review its UK investment strategy 'like everyone else'. The company makes wings for its aircraft in Wales and employs 15,000 people in the UK.

In the steel sector, Tata Steel has decided to halt the sale of its loss-making UK plants after many potential bidders withdrew following the referendum vote. The plants employ some 11,000 people, and these jobs have been considered at severe risk as the Indian conglomerate tries to sell its UK interests.

The future of sectors relying on low-paid, often migrant, labour is also likely to be affected by UK departure from the EU. One of the key demands of those advocating a Brexit vote was restrictions on the free movement of labour guaranteed in the EU treaties. But agricultural employers are warning that if restrictions are placed on migrant fruit-pickers, they may move production to countries such as the Netherlands and Portugal. The UK Food and Drink Federation also warned that the food and drink industry faced huge uncertainty following the vote. The organisation says its members employ 130,000 people from eastern Europe – more than a quarter of its 450,000-strong workforce.

#### CASE IN FOCUS

##### UK department store chain BHS closes

**British Home Stores**, otherwise known as BHS, announced in June 2016 that it was winding down all 163 of its UK-based stores following a failure to come to an agreement with creditors over the massive debts that the company has incurred over the past seven years. The company entered administration in late April. The chain of mid-market department stores has been a prominent feature of the UK high street for almost 88 years but has been loss-making for the last seven. The company's management is facing criticism as questions are raised about how and why the retail giant, which in 2000 was listed in the FTSE 100 index of top British companies, has collapsed and left almost 11,000 employees jobless.

BHS, which began as an entrepreneurial venture by American investors in 1928, was bought and privatised by British billionaire Philip Green in 2000 and was later

merged with his larger retail holding company Arcadia. In 2015, Green sold BHS to a group of investors known as Retail Acquisitions, headed by ex-racing-car driver Dominic Chappell for the nominal sum of GBP 1. Despite its name, the group had almost no experience in the retail sector. It is estimated that the Green family earned around GBP 580 million (around €700 million) in dividends from BHS during its 15 years of ownership, while company funds fell from a surplus of GBP 5 million (€6 million) to a deficit of GBP 225.6 million (€270 million) over the same period.

On 2 June 2016, less than one year after its purchase, Retail Acquisitions announced that BHS was to enter receivership, and many of its least profitable stores were closed that same day. In many cases, staff became aware of their imminent redundancies via the media. The company has debts of GBP 1.3 billion (€1.6 billion), GBP 571 million (€685 million) of which relates to pension deficits. The closure is the subject of separate inquiries by the UK Parliament's Business, Work and Pensions Committee, the Pensions Regulator and the Insolvency Service.

The collapse of BHS is the largest in the UK retail sector since the demise of its competitor Woolworths in 2008, but it is not an isolated event. Another large British retailer, **Austin Reed**, closed its doors just a few days prior to the BHS collapse. Phillip Green has offered GBP 80 million to reduce the BHS pension deficit, but it has been reported that the Pensions Regulator may ask Green for up to GBP 300 million to support the government's Pension Protection Fund. Green has also offered to hire up to 1,000 BHS employees in stores associated with Arcadia such as Dorothy Perkins, Miss Selfridge and Wallis. The shop-worker's trade union USDAW has called on the government to re-examine legislation surrounding companies entering administration to secure the best interests of the company and its workforce and not just the financial interests of the company's creditors.

#### About the ERM

The European Restructuring Monitor (ERM) is a unique EU-wide dataset on larger-scale restructuring events. It monitors the announced employment effects of restructuring in the EU28 and Norway. The ERM is updated on a daily basis and data can be used for statistical analysis. It relies on reports in selected media titles. The data for this report were extracted on 8 July 2016. For more, visit the [European Restructuring Monitor web page](#).

This issue is based on contributions from Eleonora Peruffo, Wendy Jacobs, John Hurley and Andrea Broughton (EU-level correspondent).

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