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ERM Quarterly, Quarter 4, January 2017

Abstract

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- Supporting internationalisation
- VW cuts 30,000 jobs in move to electric car production
- Job cuts at Swedish Migration Agency
- ING bank – Job losses in Belgium and the Netherlands

Keywords

European Union, restructuring, job creation, job loss

Comments

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Macroeconomic trends and prospects

In the 1990s, Alan Greenspan talked of **'irrational exuberance'** in the stock markets. Unfounded optimism had driven share prices up to values that no rational analysis of company or country performance could justify. At the end of 2016, the Financial Times marked the end of the year by talking of 'irrational equanimity'. Despite the political tumult of 2016 and its electoral decisions (the ramifications of which will become evident only over coming years), share prices have been rising rapidly. Over the final quarter of 2016, other economic indicators also tended to strengthen in most developed economies, with labour markets in particular benefitting. According to the most recent data, the EU28 labour market has on average been adding 3–3.5 million net new jobs annually. Time will tell if some sort of reality check is due in 2017.

Job creation and job loss at a glance

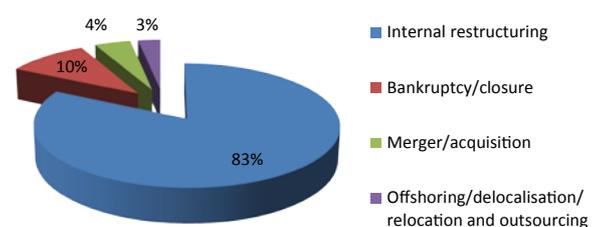
The ERM recorded a total of 386 cases of restructuring between 1 September and 30 December 2016. Of these, 172 were cases of announced restructuring involving job loss and 189 were cases involving announced job creation. Seven cases involved both job loss and job creation. These cases comprised a total of 85,519 announced job losses and 79,671 announced job gains. In addition, the ERM recorded 11 large transnational cases. Of the announced job losses, 83% were accounted for by internal restructuring, an increase on the last quarter (79%). Bankruptcy and closure accounted for 10% of job losses in this quarter. The proportion of announced job losses attributed to offshoring, relocation and outsourcing was 3%, while mergers and acquisitions accounted for 4%. In terms of geographical distribution and absolute numbers, Germany recorded the greatest number of announced job losses (27,528 jobs), followed by the UK (11,302) and France (9,175). France recorded the greatest number of announced job gains (21,089) followed by the UK (19,071) and Poland (7,135).

2016 Q4	Announced job losses	Announced job gains
EU28 + Norway	85,519	79,671
EU28 + Norway, change on previous quarter	+20.88%	+23.71%
Big increases by country*	Germany++ Sweden++	France++ United Kingdom++ Hungary++
Big increases by sector*	Manufacturing++ Public administration++	Professional services++ Retail++ Information and communication+

* Comparing the quarter to the four-quarter moving average; ++ = >100%; + = >50%; excludes country or sector if quarter average and 2016 Q4 <1,000 job losses or gains.

Source: ERM, October–December 2016

Reasons for announced job losses



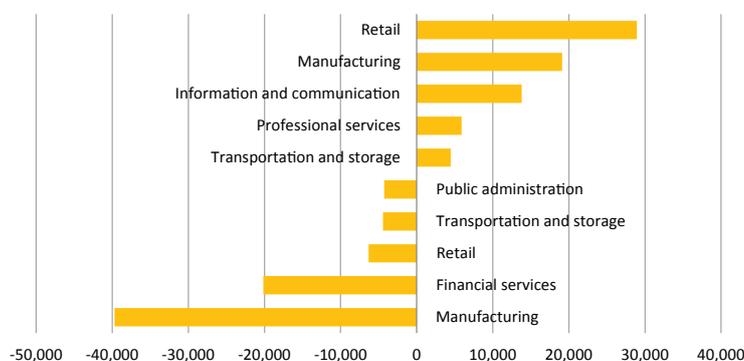
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Sectoral distribution of job losses and gains

The figure below plots the top sectors (NACE rev.2 one-digit) in terms of announced job loss and job creation, as reported to the ERM in the fourth quarter of 2016. In absolute numbers, the biggest announcements of job losses were recorded in the manufacturing sector (39,698), financial services (20,150) and retail (6,315). The biggest announcements of job gains were recorded across the retail sector (28,940), followed by manufacturing (19,105) and information and communication (13,796).

Announced job loss and job gain: Top five sectors, Q4 2016



Announced job gains

Retail	28,940
Manufacturing	19,105
Information and communication	13,796
Professional services	5,900
Transportation and storage	4,475

Announced job losses

Public administration	-4,264
Transportation and storage	-4,441
Retail	-6,315
Financial services	-20,150
Manufacturing	-39,698

Top 5 cases of job loss and job creation

Date	Company	Job losses	Location	Sector	Type of restructuring
18/11/2016	Volkswagen	23,000	Germany	Manufacturing	Internal restructuring
03/10/2016	ING	3,150	Belgium	Financial services	Internal restructuring
04/10/2016	Ericsson	2,770	Sweden	Manufacturing	Internal restructuring
25/11/2016	Alior Bank	2,600	Poland	Financial services	Merger/acquisition
03/10/2016	ING	2,300	Netherlands	Financial services	Internal restructuring

The biggest case of job loss during the fourth quarter of 2016 was that of **Volkswagen**, with 23,000 job losses announced in Germany. However, of the top five cases, three in fact come from the financial services sector. The restructuring in the national branches of ING in **Belgium** (3,150 jobs) and the **Netherlands** (2,300) are the third and fifth cases respectively. More details on these cases are available in the section on page 3. The fourth biggest case was again in financial services: Polish bank **Alior** dismissed 2,600 people due to its merger with BHP bank. The terms of the dismissal are being discussed with the trade unions. In the third-biggest case, 2,700 job losses were announced in Sweden as a result of the downsizing of **Ericsson** – both in its production and research and development (R&D) areas. Most of the employees accepted severance packages at a total cost to the company of the equivalent of €600 million.

Date	Company	Job gains	Location	Sector
07/10/2016	E.Leclerc	10,000	France	Retail
16/12/2016	Lidl	5,000	UK	Retail
18/10/2016	Real SB-Warenhaus	3,000	Germany	Retail
15/11/2016	Google	3,000	UK	Computer programming, consultancy, related activities
08/12/2016	Hudson's Bay	2,500	Netherlands	Retail

Four of the top five cases of new job announcements in the quarter came from the retail sector. The biggest case of restructuring involving job creation was hypermarket chain **E. Leclerc**, which announced 10,000 new permanent contracts in France over the next three years. In the UK, discount chain **Lidl** announced 5,000 new jobs. Meanwhile, in Germany, **Real SB-Warenhaus** (a subsidiary of the retail and wholesale giant Metro) announced 3,000 new sales positions (in the context of a reorganisation that sees 500 positions cut in the administrative department). In the Netherlands, Canadian retailer Hudson's Bay (the fifth-largest case) announced 2,500 new jobs, following its decision to expand in that country. This resulted from the bankruptcy of Dutch department store **V&D**, which created space for **Hudson's Bay** both in terms of the market and of physical locations. The third-largest case of job announcements is in the Information and communication sector; **Google** plans to hire 3,000 people in its London headquarters: thus confirming, for the moment, its presence in the UK after the Brexit vote.

SUPPORT INSTRUMENTS IN FOCUS

Supporting internationalisation

Internationalisation is considered an important driver for economic and employment growth. Accordingly, the European Commission promotes both the **European Single Market** and internationalisation beyond the EU – for example, by supporting small and medium-sized enterprises' **(SMEs) activities in third markets**.

The process of internationalisation can be a demanding one for companies, one which may result in internal restructuring. Across the Member States of the EU, a variety of public or social partner-based support instruments exist to foster internationalisation. Some instruments provide companies with information about potential target markets, such as economic or labour market characteristics, institutional settings or legal regulations; often, they target first-time exporters or SMEs (as in **Austria**). However, in some cases a specific sector or product focus is targeted (as in **Bulgaria**).

Several national support measures go beyond the provision of information by offering operational assistance to future or current exporters. This can include an assessment of readiness to export, supporting the drafting of an action plan for internationalisation, mentoring and training for management or staff or providing opportunities to participate in international trade fairs or study visits (offered, for example, in **Greece, Ireland, Slovenia** and the **UK**).

Other instruments support exports or foreign direct investment through access to finance. Examples are favourable credits for export activities or investments abroad (such as in **Estonia, Portugal** and **Spain**) or insurance schemes covering the risk of non-payment by foreign customers (available, for example, in **Greece**). Meanwhile, a **Polish** grant scheme aims to facilitate companies' access to foreign markets: it supports their internationalisation by subsidising international product certification costs.

Another category of support for internationalisation is assistance in establishing international cooperation. Networking is often an important part of doing business abroad, but can be quite challenging. Public authorities or social partners may help companies with identifying and approaching international business partners to market a product abroad (as in **Slovenia**); and they may help in identifying foreign companies or institutions that will cooperate in joint innovation and product development (as in **Austria** and **Malta**).

Interestingly, there also exist national or regional public agencies aiming at enhancing inward internationalisation by attracting foreign companies or investors into the country or region. Examples of these include **Enterprise Estonia**, the **Slovak Investments and Trade Development**

Agency (SARIO) and **Luxembourg for Business and Innovation**.

For further information, please visit Eurofound's **ERM database of restructuring support instruments**. Recently, Eurofound has also conducted research on internationalisation by focusing on 'Born Globals' – young companies that immediately after their inception intensively engage in international business. Findings have been published in the report **Born global: The potential of job creation in new international businesses**. Related material is discussed in **Job creation in SMEs: ERM annual report 2015**.

CASES IN FOCUS

VW cuts 30,000 jobs in move to electric car production

In November 2016, Europe's largest car manufacturer **Volkswagen** announced plans to reduce its global workforce by up to 30,000 by 2025. This is part of a plan, the 'Future Pact' negotiated with trade unions, to transform and rejuvenate its brand and to develop electric and self-driving cars. Although 30,000 jobs will go, the company will also create 9,000 jobs as part of its plan to invest in new products. The restructuring plan aims to save €3.7 billion a year by 2020. Volkswagen chief executive Matthias Mueller described it as 'the biggest modernisation programme in the history of the group's core brand'. (The company is still suffering the effects of the US emissions limits crisis, which erupted after it was revealed that VW cars were fitted with software that could detect when emissions tests were being carried out.)

Volkswagen has said that the majority of the job losses, up to 23,000, will be in Germany, at the company's sites in Emden, Wolfsburg, Hanover, Salzgitter, Braunschweig, Kassel, Zwickau, Dresden and Chemnitz. This represents around a fifth of its 120,000-strong German workforce. Volkswagen aims to improve productivity at its German plants by 25%. Employing 610,000 people in a total of 31 countries worldwide, the company also plans to cut jobs at production sites in the USA, Brazil and Argentina.

Volkswagen has an agreement with its works council under which it is committed not to make any compulsory redundancies until at least 2025. Therefore, these job cuts will be achieved through such approaches as partial retirement, early retirement and non-renewal of temporary contracts. It is expected that a large proportion of the job cuts will come from early retirement. The company has also made a commitment to build the next generation of electric vehicles at its German plants in Zwickau and Wolfsburg, and expects to create around 9,000 new jobs through investment in new technology. This means that many workers will simply be able to move into new jobs, after

participating in the training plans that will be made available by the company.

The announcement of the plan was welcomed by Bernd Osterloh, head of the Volkswagen group works council, who stated at a press conference that the main message is that the jobs of the company's core workforce are secure.

Industry analysts have commented that Volkswagen is responding to a rapidly changing market, characterised by the growth of electric cars. For example, China is introducing an e-vehicle quota in 2018, under which 8% of vehicles sold will need to be electric. This will rise to 12% in 2020. The emissions scandal is also being seen as a catalyst for a strategic shift towards the production of electric and self-driving cars.

Job cuts at Swedish Migration Agency

With significant budget cuts expected for 2017, the Swedish Migration Agency announced plans in December 2016 to cut up to 1,800 jobs. The budget cuts are planned because the number of refugees arriving in Sweden diminished drastically in 2016 compared with 2015 (when the European migration crisis was at its peak). The exact number of redundancies still depends on the final budget for 2017 but – as plans currently stand – the Agency will need to reduce staff by 25% by 2018. This would translate into a loss of 1,779 jobs – from the current 7,104 employees to 5,325.

The job cuts follow the rapid expansion of the Agency in 2015–2016, when huge inflows in the number of asylum seekers meant the agency needed to increase staff levels in order to meet demand. A number of ERM cases in 2015–2016 dealt with large-scale recruitment to deal with the phenomenon by city authorities in **Stockholm**, **Gothenburg** and **Malmo**. More recently, stricter migration legislation has reduced the number of refugees being granted asylum. In addition, the controversial EU migration deal with Turkey has made it difficult for refugees coming from the Middle East to enter the EU through Turkey, while entering through Greece and Italy has in recent times also become more difficult. Even though the humanitarian crisis in Aleppo and other parts of Syria persists, it has been reported that the number of Syrians coming to Sweden has decreased from almost 60,000 people in 2015 to only 7,000 people in 2016.

ING Bank – Job losses in Belgium and the Netherlands

In October 2016, Dutch bank ING announced a large-scale restructuring that will result in some 7,000 job cuts. It is reported that the majority of the job cuts will affect Belgium (3,500 jobs projected to be lost) and the Netherlands (2,300). Seeking to generate annual savings of €900 million by 2021, this internal restructuring will result in a reduction of the bank's global workforce by around 13%.

ING's situation is indicative of the general state of the financial sector, as increasing digitalisation, low interest rates and stricter banking regulation continue to drive banks to cut costs in order to improve their competitiveness. Worker representatives have expressed concern over the increasing digitalisation of the banking industry, fearing that this will lead to further redundancies in the future. Currently, ING is reported to be investing €800 in digitalisation in an effort to improve its customers' online banking experience. In the Netherlands, ING has faced controversy over internal documents indicating that some of the job losses will in fact result from the offshoring of activities to low-cost countries in eastern Europe and Asia (rather than from digitalisation), but this has yet to be confirmed by ING.

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 11 January 2017. For more information, visit the [European Restructuring Monitor web page](#)..

This issue is based on contributions from Eleonora Peruffo, Jenna Jalava, John Hurley, Irene Mandl and Andrea Broughton (EU-level correspondent).

EF/17/02

