

## Restructuring of the Alcatel factory in Colfontaine

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### Summary

In 1969, the Colfontaine site was opened by the Belgian subsidiary of the American company Bell Telephone as an assembly plant for electrical and mechanical components. In 1986, the company was bought by Alcatel which decided, in 1995, to restructure the Wallon site. At the end of March 1997, the CEO of Alcatel Belgium announced to the workers the closure of the site for September 1997 and that production would be transferred to the groups' factories situated in France, China and Turkey.

That was the beginning of the legal restructuring process with the procedure of informing and consulting employees followed by the negotiation of the labor agreement relating to the factory closure.

In parallel to this negotiation, the factory's former management committee succeeded in convincing the Alcatel CEO, along with the personnel and trade union officials, that the site was still viable. They then set about finding a new buyer. The company MCMS showed an interest and negotiated the following takeover conditions with Alcatel: an assurance that the two activities would be completely split up so as to enable a change in the working conditions of the personnel; the guarantee of a degressive workload; that investment grants would be obtained, and the assurance that the Manager and the Human Resources Manager stayed.

On analysis, the case study brings out two main points: the site's closure was thought of as an opportunity for a new start and secondly, that supervision of the restructuring was managed by a local team. This was in order to respect the parent company's firm intention to encourage any steps which saved jobs. However, this doesn't mean that the viability of the site is ensured...

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# *Monitoring Innovative Restructuring in Europe*

## **MIRE**

### **CASE STUDY**

## **Restructuring of Alcatel's Colfontaine site**

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(French version available on request)

**I. *People interviewed***

<b>NAME</b>	<b>COMPANY</b>	<b>POSITION (IN 1997)</b>	<b>TYPE OF PLAYER</b>
Mr de Lophem	Alcatel	Lawyer	Employee
Mr de Ryckel	Alcatel	Head of on-site production	Employee
Mr Lemoine	Valorics (Colfontaine)	-	Employee
Ms Guaglianone	Alcatel	HRD	Employee
Mr Hainaut	Alcatel	Head of transfer	Employee /Expert
Mr Macci	Alcatel	Employee	Worker
Mr Mazzocco	Alcatel	Manager	Worker
Mr Sirjacq	Alcatel	Manual worker	Worker
Mr Jespers	CSC, Hainaut	Permanent member	Trade union
Mr Jenart	FGTB Mons	-	Trade union
Mr Druart	FGTB Mons	Permanent member	Trade union
Ms Fabian	FOREM, Mons		Employment services
Mr Limelette	FOREM, Mons		Employment services
MR Nobels	IPS Consultants	Consultant	Consultant/Expert

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### **III. Background information**

#### **III.1. Alcatel's Colfontaine site**

In 1969, the Belgian branch of the American company, Bell Telephone, inaugurated its site in Colfontaine for assembling electrical and mechanical components mainly for telephone equipment. The decision to create the Colfontaine site was, at the time, a response to a political will. After all, Bell Telephone was, together with Atea, one of the two main suppliers of RTT (Telegraph and Telephone Administration), the then sole national telephone operator. In order to meet RTT's criteria, Bell Telephone and Atea were obliged to distribute their sites between the north and south of Belgium. At the time, although Bell Telephone already had several sites in Flanders (Gand, Geel, Antwerp, etc...), consisting of approximately 13 000 workers, it didn't have any in Wallonia. The opening of the Colfontaine site, in the town where the Ministry of Telecommunications was based, was expected to compensate for this. The opening of this site was followed a few years later in 1975 by a second Wallonian site in Villers-le-Bouillet. By the start of the 1970s, the Colfontaine site had approximately 800 workers.

In 1986, Bell Telephone was bought back by Alcatel. The site gradually lost several employees mainly because of the technological revolution, consisting of a transition from mechanical processes, which required huge manpower, to the introduction of electronic technologies, which required much less human capital.

In 1995, restructuring saw the loss 60 members of staff, bringing the number of workers at the Colfontaine site to 189 (164 manual workers and 25 full-time employees). Following this restructuring, the company was put under dual administration: it was accountable to both Antwerp and the CEO of Alcatel Belgium for the management of its personnel and finances. It was, however, also accountable to Paris, more precisely, to the head of the Business Systems department, for industrial planning.

#### **III.2. Problems encountered**

In 1996, the year before the year of restructuring that we are concerned with in this document, the Colfontaine site experienced several days of strike; modernisation of the production process, just like the technological revolution in the past, had rendered a large part of the workers redundant.

At the end of 1996, the Director of the Colfontaine site was summoned to Paris by the head of Business Systems, who informed him of plans to close down the Colfontaine site and move production to Brest (900 workers) and China and Turkey. The Directors of Alcatel hoped that the closure of the Colfontaine site would help consolidate production, bring economies of scale and reduce overheads, thus making production more competitive. This decision saw the layoff of the entire workforce at the site, thus bringing redundancy to one of the poorest areas in Europe with an unemployment rate approaching 40%. These layoffs had a non-negotiable social and economic impact on Colfontaine and the Mons-Borinage region.

Not only were the three directors in charge of the site (the Site Director, Director of Production and HRD) concerned about the future of its workers, they actually believed that their production process was well up to the job because it had seen several improvements in recent years (rationalisation and the setting up of new work processes). It could also count on very qualified workers. The Directors believed that they could preserve all this, while at the same time, helping some of the more deserving workers. Therefore, they thought of several scenarios for maintaining production at the site: spin-off, management buy-out... However, what they thought most likely to succeed was to evaluate the site correctly and find a buyer.

### **III.3. The restructuring process**

In effect, this consisted of two simultaneous operations: closure of the site on the one hand and finding a buy on the other.

During the extraordinary meeting of the Work's Council on 27 March 1997, the CEO of Alcatel Belgium announced the closure of the site by 30 September 1997 and his hope to find an alternative solution, like finding a buyer.

#### **III.3.1. Closure of the plant**

Within the framework of the closure of the Colfontaine site, its administration was able to win recognition by the Ministry of Employment to be classed as a company undergoing restructuring and, therefore, was exempt from its obligation of having to replace laid off workers. It could lower the minimum early retirement age to 50 and reduce the notice period to a minimum of 6 months. Whilst awaiting closure of the site, Alcatel fulfilled its legal obligations required of companies folding up: consultation with workers and special redundancy payment. Alcatel also fulfilled its obligation<sup>1</sup> of consulting with employee representatives, thus complying with its status as a company undergoing restructuring. Following the extraordinary meeting of the Work's Council on 27 March 1997, management held a Work's Council on a monthly basis, until the closure date.

Despite a tense social atmosphere and several protests and demonstrations, the closure process went ahead without incident or strikes, thanks partly to the permanent<sup>2</sup> secretaries of the trade unions who understood that the key to keeping the site alive was to maintain production. The Colfontaine site shut its doors as expected on 30 September 1997, with a mass layoff of all its employees. All workers received the same pay compensation terms: redundancy pay due to closure<sup>3</sup>, professional costs paid by their employer<sup>4</sup>, compensation for a breach of contract<sup>5</sup>, social support<sup>6</sup> to help find alternative employment<sup>7</sup>.

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<sup>1</sup> The Renault law wasn't yet in existence.

<sup>2</sup> Trade Union members that organise delegates within different companies and who act as a link between their respective companies and the trade union.

<sup>3</sup> 4520 BEF (112.05€) net for every year of service + 4520 BEF net for every year over 45.

<sup>4</sup> 50,000 BEF (1239.47€) per worker

<sup>5</sup> Negotiated by each worker

<sup>6</sup> Unemployment benefit ranging from 100,000 BEF (2478.94€) for every worker aged between 30 and 34 to a maximum of 540,000 BEF (13,386.25€) for workers over 48.

<sup>7</sup> Outplacement service for 6 months, extendable by a further 6 months if necessary.

### III.3.2. Finding a buyer

#### *A well-balanced and complementary team*

In parallel to the closure of the Colfontaine site, a task force was set up to find a buyer for the site. This team initially consisted of the site's Executive committee, which included the Site Director, the Director of Production and the HRD. Thanks to financial support from the CEO of Alcatel Belgium, the team could employ the services of Belgian consultants to help them identify any potential buyers and evaluate their offer. The CEO finally asked a former Alcatel director on the verge of retirement to step in and head this research team.

The duties of the team could be broken down as follows:

- Day to day management and handling of the company, headed by the Site Director
- Relations between personnel and political and local figures, managed by HR
- Search for a buyer headed by the Director of Production, the project Coordinator and Consultants, assisted by Alcatel's lawyer.

This team was accountable to one person: the CEO of Alcatel Belgium.

All members of the team agreed that their greatest asset as a team was their joint expertise. The Director of Production had a good understanding of the company, its products and the production process. The Project Coordinator, as an engineer and former Director of an Alcatel site, also had a good understanding of the industrial process and he was conversant with the American market and culture, which was crucial in negotiating with the buyers. The consultants brought an indispensable, independent, external approach to the team, coupled with a strong capacity for analysis and synthesis. Alcatel's lawyer, who oversaw all the legal aspects relating to the closure and take over of the site, complemented the team.

Furthermore, the team had the prior experience of the restructuring process, since the Site Director, the Director of Production and the HRD had already had to face up to a previous restructuring programme of the Colfontaine site in 1995, and the Project Coordinator had himself already had to handle a site closure and restructuring process.

#### *What was at stake for the various players*

Members of the team had varying agendas, some of which could be said to have been contradictory. The Site Director soon announced that he would be leaving Colfontaine to take up other responsibilities within the Alcatel group, regardless of the outcome of the team's work. His role was thus limited to keeping the site in good working order, delivering orders and preparing for the closure of the site.

The Directors of Production and HR, on the other hand, planned to stay on in the new structure once it was set up. This led them on a number of occasions to feel the need to defend the interests of the new structure, as opposed to those of Alcatel, during the course of the negotiations with potential buyers. Their ultimate objective

went beyond simply trying to find a potential buyer, to striving to create a viable, industrial project for the new entity.

The sole objective of the Project Coordinator and the Consultants, who were both working for the CEO of Alcatel Belgium was to find a buyer for the site. As highlighted by the Project Coordinator, it wasn't just an obligation of best efforts but a real obligation of performance. The CEO also had a lot at stake in this matter. As the head of Alcatel Belgium, it was important that this closure went as smoothly as it could so as not to tarnish the image of the company. However, the CEO had a more personal objective; in April 1997, just a few days after announcing the closure of the Colfontaine site, he was appointed as the new President of Fabrimétal, the Employers Federation for the Metallurgic Industry. In this new role, it was particularly delicate for him to be seen to be closing down a company in this sector, in an area that was already very hard hit. Being able to bring this process to a successful conclusion would allow him to reassure employees that he was committed to defending this sector as President of Fabrimétal.

Whatever was at stake for each player in the Colfontaine affair, it is important to say that it was in everybody's interest to find an acceptable solution.

The position of trade union officials differed from that of in-house representatives. Whilst the former were looking to maintain production at the site so as to make it more attractive to potential buyers, representatives appeared to be seeking confrontation rather than dialogue and gave the impression of being selfish by asking for favourable treatment...

### *Finding a buyer*

Finding a potential buyer wasn't going to be an easy matter. Deep-rooted change was brewing in the sector that Alcatel was operating in. This change related to companies wanting to return to their core business. Production at the Colfontaine site was more of a marginal type that very few of Alcatel's competitors were interested in<sup>8</sup>.

Luckily, the Director of Production came across a study carried out by an American (Randall Sherman) regarding the development of outsourcing in the United States. This study made a distinction between Electronic Contract Manufacturers (ECM), on the one hand and Original Equipment Manufacturers (OEM), the main clients of ECMs, on the other. The American consultant highlighted the tendency for more OEMs to outsource production to ECMs and the immense possibilities that this new market created. This practice, which was gaining ground in the United States, hadn't yet come to Europe by 1997. It was therefore necessary to turn to the United States to look for an ECM interested in buying the European site. To give itself every chance of success, the team decided to seek the services of this American consultant, through the Belgian consultant, with the aim of looking into potential American candidates.

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<sup>8</sup> Alcatel's lawyer pointed out that if a competitor had shown any interest in this site, this would have called into question Alcatel's strategy and could have led to our having to reconsider whether to sell the site at all.



In order to present the site to the various potential buyers, the team, together with the consultant, put together a "selling memorandum", which gave a profile of the company, throwing light on what it did, its workforce, its strong points and weaknesses... the document was complemented by a video presentation. The team realised that not only would the potential buyer have to want to expand in Europe but it also had to be of a size that was big enough to be able to take on the amount of potential business that the Colfontaine site could generate. Only very few ECMs met these criteria. Through the American consultant, the Director of Production and the Project Coordinator were able to establish direct contact at the highest level with these few companies. These companies included Sanmina, Solectron, Flextronics and Micron Custom Manufacturing Services (MCMS). Both men went to the United States to show these companies exactly what the Colfontaine site had to offer (high productivity, proximity to European clients, possibility for production on a global scale over longer working hours, etc.). They both considered this direct contact approach as crucial to the success of the project. Apart from enabling them to establish informal contacts, it was also an opportunity for both men to find out a bit more about the companies' own sites and, therefore, to better understand their expectations.

After two unsuccessful proposals, one being too low, the other because the business plan was judged to be unsatisfactory, the team accepted the offer by MCMS. This led to a long period of negotiations.

#### *Negotiations between Alcatel and MCMS*

Negotiations between Alcatel and MCMS went on for three months. They covered several items, some of the most important of which were as follows:

- The guarantee of a clean break between the activities of Alcatel and MCMS so as to protect Alcatel and MCMS from the European directive in the Collective Work Convention 32 bis<sup>9</sup>. In order to achieve this, the site was to close its doors on 30/09/97, with MCMS starting up operations one month later on 01/11/97. Therefore, all personnel had to have been made redundant by 30/09/97.
- Guaranteed work from Alcatel. Alcatel promised MCMS a gradually decreasing workload over a three-year period (100 Khrs the first year, 65 Khrs the second year and 35 Khrs the third). This workload was to guarantee MCMS enough revenue in the initial stages and give it enough time to win new clients.
- Investment subsidies from the Wallonian region. As MCMS had promised 200 million BEF of investments and to employ 101 people from 1 July 1998, it obtained a subsidy of 42 million BEF (1M €) from the Wallonian region.
- The guarantee that the Director of Production would become the Site Director and that Alcatel's HRD would retain his position.

In mid November, trade union officials held a meeting with MCMS at Fabrimétal. The buyer showed them their terms and conditions (wage scale and bonuses for minimum stoppages, a 38 hrs 45 mins. work week with 4 days off and over 40 hours

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<sup>9</sup> The CWC 32 bis, signed on 7 June 1985, reviewed part of the provisions of the Council of Europe's Directives of 14 February 1977 relating to workers rights and statutes in the event of a takeover.

with 16 days off). This was their “bottom line”. Aware of the structural problems in their “devastated” region, trade union officials “grudgingly” accepted MCMS’s offer, which included a social peace clause. Trade union officials, on the other hand, wanted guarantees from MCMS that all staff would be re-employed. This was rejected by MCMS.

These negotiations led to the signing of three contracts between Alcatel and MCMS: a takeover contract, a transition contract and a manufacturing contract (stating the workload guarantees).

In addition to these contracts, MCMS signed two collective labour agreements: one with the manual workers’ trade union officials and the other with the skilled workers’ trade union officials.

#### *The role of communication in this operation*

The team in charge of finding a buyer believed very much in dealing directly with employee representatives and trade union officials or area representatives. A fortnightly meeting was held during the six months of the closure process. In such meetings, the Director of Production and the Project Coordinator updated those present of the state of progress of the project.

However, since the team had signed confidentiality agreements with potential buyers, this exchange of information could only be limited. Naturally, this confidentiality requirement made it appear as if management wasn’t so keen on finding a buyer.

#### *A process whose aim was to reduce the impact of restructuring*

The main aim of finding a buyer for the Colfontaine site wasn’t to avoid restructuring but to change the consequences by limiting the loss of jobs.

Although several players (Executive Committee, permanent representatives) considered the closure of the site to be unjustified because it was more profitable than other sites<sup>10</sup>, nobody would – nobody could – make Alcatel change its mind. Instead, the decision was to maintain production at the site, even though this would have to lead to concessions on either side.

### **III.4. Results of the operation**

#### **III.4.1. Results of the operation in terms of employment**

The process of closing and transferring the Alcatel site in Colfontaine affected 202 members of staff: 173 manual workers and 29 professional employees. Around 50% of the workforce was female. All these people were equally affected by the closure of the site, as they were all made redundant. However, not all of them were reintegrated into the new structure.

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<sup>10</sup> The site at Brest, for example, which was to take over Colfontaine’s production.

The factory started up again on 15/11/97 with 14 people solely under the management of the previous Production Manager, assisted by the HRD. After three months, there were 20 people under his management. And as production increased so did the number of people appointed. In June 1998, the factory employed around 110 workers. Only 50 of these 110 workers were originally from the Alcatel factory. This relatively small number of original employees can be explained in several ways. A large number of the employees of the Alcatel factory had already found new employment before the closure of the site due to the outplacement programme put into place and funded by Alcatel Belgium. Furthermore, 12 workers were able to take early retirement. Amongst the remaining workers, there were many who refused the working conditions proposed by MCMS. They were, in effect, far less favourable than those that these workers had known under Alcatel. The salaries offered by MCMS were, on average, between 20-30% less than those offered by Alcatel. Furthermore, MSMS did not propose a salary re-evaluation every six months like their previous employer. Employees also lost their end-of-year bonuses and break-times were brought down to the minimum for the region. In addition, the new internal regulations imposed particularly strict conditions: strict dress code (hair net, shoes...), smoking was banned... and the organisation was much more focused on production with a precise number of components to manufacture per minute. Some of the former Alcatel workers taken on by MCMS were unable to adapt to this new organisation and preferred to leave the factory.

Finally, the HRD suggested another reason why MCMS did not take on more former Alcatel workers. MCMS considered that by taking on more former Alcatel workers, it would have to deal with the resistances that it knew prevailed under that structure. Therefore, MCMS wished to balance out the share that the former Alcatel workers represented by employing new, motivated staff and thereby break away more easily from the old corporate culture.

#### III.4.2. Cost of the operation

There were two aspects to the cost of this operation. Firstly, there were the “standard” costs relating to the various compensation payments and the outplacement programme. Secondly, Alcatel had to cover other costs such as those relating to human resources (hiring of a consultant, back-pay for Mr. Hainaut...) and materials (transfer costs...) and implementing the campaign to find a purchaser. These various costs were financed in part by the proceeds from the sale of the site and equipment to MCMS and in part directly by the Alcatel group, who owned the factory.

#### III.4.3. Fragile sustainability

Unfortunately, MCMS’s experience was not conclusive as the site rapidly found itself in trouble once more. The reason for this situation seems to have been the lack of solidity in MCMS’s business plan, which envisaged that part of the production would be undertaken on behalf of its main client, Micron. However, Micron already had a factory in Ireland and never accepted to place an order with a Belgian factory that was operating in direct competition with its site in Ireland.

In July 1999, the American managers of MCMS flew to Belgium to request that the Managing Director liquidate the company. He refused due to the commitment the factory had made to supply Alcatel. Subsequently, the MCMS Corporation seems to have wanted to “strangle” the Colfontaine site by diverting a share of the orders to its American factories. In total disagreement with this action, the Managing Director decided to resign. A few months later a new CEO took up the head of MCMS and asked the recently resigned Managing Director to resume his position, which he did.

Two events subsequently signed the death warrant of the MSMS venture in Belgium: the expiry of Alcatel’s production programme and a sluggish economic climate following the explosion of the technology bubble in 2000. The company therefore drew up a winding up arrangement in 2001.

In June 2002, Punch International created the subsidiary, Punchtronic, in order to purchase the Colfontaine factory from MCMS. The factory employed 85 manual workers and 12 professional employees and was still managed by the same Managing Director and HRD. The subsidiary quickly instigated an investment plan and relocated a (similar) business activity from one of its other Belgian factories located in Ypres to Colfontaine. However, this action plan did not provide a boost to business and the factory was put up for sale once more. Upon reflection, several witnesses suggested to us that this acquisition seemed to be more of a speculative strategy aimed at presenting the factory in a better light than reselling it at a more lucrative price rather than a real industrial strategy.

On 1 October 2003, the factory was sold by Punchtronic to Valorics. Ever since, the new company seems to have been experiencing a renewed growth. Although the site only had 80 personnel when it was bought back by Valorics, it now has 151. Furthermore, Valorics has made massive investments into new machinery with the view to diversifying its activity to a service of higher added value in order to remain competitive. The company is in fact aiming to become a key player in the manufacturing process of electronic materials by positioning itself as an assembly expert: thanks to its technical abilities, it advises on the profitability of any new project.

#### III.4.4. A change in the social dialogue

When activity resumed, there was no immediate union delegation appointed as MCMS had refused to re-employ former union officials. While waiting for the social elections planned for 2000, the role of representing the workers fell therefore to permanent union secretaries. Relations between these worker representatives and management were, therefore, greatly changed. Although there used to be considerable social dialogue in the factory based on the opposition of the balance of power often in favour of the workers, the situation changed significantly. First of all, this dialogue now took place off the factory premises. Then, the union opposition force was greatly weakened due to the socio-economic situation of the region, which forced trade union officials and workers to “reluctantly” accept the new employment and working conditions that were far less favourable to them.

Nevertheless, the new management did not wish to break off all dialogue but rather to instigate a new one, based on a more consensual method and on the participation of the workers and their representatives in the success of the company.

### *How managers and staff each saw the operation*

Members of the team responsible for the transfer of the Colfontaine site view the result of the operation as very successful. Of course, they are aware of the fact that it is not perfect, but consider that it is nevertheless a huge success and a significant improvement in comparison to the situation envisaged at the outset.

The workers views on the matter were somewhat more mixed. They would have all liked the transfer of the factory not to have to mean closure of the factory which would have allowed them to retain the social benefits and seniority which they had with Alcatel. Furthermore, some believed that accepting to work for MCMS under the working conditions they proposed, was not necessarily the best choice. In fact, almost eight years after the transfer of the factory by Alcatel to MCMS, the least qualified workers have only just reached the salary level they were at with Alcatel. Others, on the contrary, rightly feel they are lucky to have kept their job. In such a devastated region where factory closures have been taking place one after the other over a number of years, many workers consider that the only other alternative would have been long-term unemployment and the resulting social exclusion.

Other the other hand, this experience of repeated transfers had weakened the trust between the workers and their various management teams. Nevertheless, the staff feel more trusting today of a management team that is proving, through investments and an end to redundancy tactics, its commitment to a solid, long-term plan.

## **III.5. Innovations in socially responsible restructuring**

### **III.5.1. Closure of a site seen as an opportunity**

Restructuring of the Alcatel site in Colfontaine can be viewed as an innovation in terms of socially responsible restructuring in as much as it has renewed the method of approaching a site closure. Far from considering only the legal, social and environmental conditions linked to a site closure, this restructuring activity aims to take advantage of the situation by injecting a new lease of life into the factory and thereby sustaining the jobs procured.

This attitude offers an alternative approach to the closure of a factory or business. Instead of seeking to limit investments that bring unavoidably low profits, Alcatel invested in human, financial and material factors in order to draw maximum value from the Colfontaine site and to give it every chance to find a purchaser and to sustain jobs.

By adopting this approach, the company, which was looking to sell one of its businesses, put out an offer that was particularly interesting to a significant number of other companies. In fact, as the Project Manager of Valorics explained, the purchase

of a site such a Colfontaine offers numerous advantages compared to an *ex nihilo* creation. In particular, such a purchase offered the benefit of an already qualified workforce and as a result less costly work coordination and a high level of quality. Furthermore, the workforce is happy to keep their jobs.

### **III.5.2. Decentralisation of the responsibility for the evolution of the structure**

The evolution of the Colfontaine factory was always under the control of the Alcatel group and in particular its management team. During the course of this operation, the Colfontaine management reclaimed the responsibility for managing the evolution of the factory by searching for new potential buyers and by showing them the efficiency of the factory, its production apparatus and its workforce. In practise, by reclaiming responsibility for the evolution of the site, the management created a team entirely dedicated to finding a buyer. It also meant the appearance of a clear distinction between the functions concerned with the day-to-day management of the company and the more peripheral functions dealing with the purchase of the factory.

Moreover, this maintenance plan for the site's activity received the complete support of the CEO of Alcatel Belgium as much through his availability as through the allocation of significant financial resources.

### **III.6. Future perspectives**

As mentioned above, the sustainability of the site did not become apparent until several years after its take over. Nevertheless, eight years after the transfer of the factory, it is still in operation today and employs almost the same number of workers as before the transfer. Furthermore, the situation of the company today seems to be more stable: no redundancies and recruitment and investments are on the increase. This situation is the result of management's wish to reinforce its position by diversifying its activities and its clientele. The company focuses today on a higher value-added service by offering a tailor-made and transparent production service. As the Project Manager says, "We are the production tool of our clients. Our site is completely open to them." Moreover, the company carries out more and more preparation prior to production. It collaborates frequently with the R&D departments of its main clients to develop electronic plans at the least cost.

Furthermore, Valorics capital is now privately held Belgian capital in the hands of individuals who are committed to the development strategy of the company. This provides the employee with a strong sense of security and confidence in the future. In fact, from now on, shareholders and employees have common objectives.

### **III.7. Transferability of the case studied**

The different players in the operation view that this case can be easily transferred with a few minor adjustments. The Project Coordinator, upon the request of the management of Alcatel France, has put together a brief detailing the stages of the transfer operation of the Colfontaine site. It will come as no surprise that this

document has been used to carry out similar operations for other Alcatel sites, in particular for the site at Brest.

The Production Manager who subsequently became the site General Manager confirms that this takeover plan has been used for other factories in the group but with a significant variant. In these cases, as opposed to the case of the transfer of the Colfontaine site, the purchasers obtained genuine product contracts from Alcatel and not simply a workload schedule limited to a few years. For the General Manager, the main element that could jeopardize this transferability is the need to identify a potential buyer market segment. If the company for sale does not appear to correspond to any segment of the market, then it should envisage completely changing activity, which would make transferability more complex.

## **IV. *Specific transversal subjects***

### **IV.1. Impact on health**

The subject of health has never been an explicit preoccupation for the different players. However, the perspective of the definitive closure of the site, in a “devastated” region where the chances of finding a job are minimal, was presented by the various individuals interviewed as a tragic event impacting on the mental health of the person falling victim to social exclusion. What is more, several people informed us that this impact was even greater in numerous cases where the site worker was the sole wage earner of the family.

Your attention is drawn to the fact that no specific measure to deal with health issues has been put in place by any of the players.

### **IV.2. Organisational impact**

After the reopening of the factory by MCMS, a totally new organisation was born. The number of hierarchical levels was reduced in order to respond to the constraints of profitability and flexibility of the new entity.

This new organisation brought about an increase in tasks for the factory workers and professional employees. All members of staff were expected to carry out a greater variety of tasks than before. Some employees, for example, had to perform administrative tasks (invoicing...) which they did not have to do before.

However, a real change in work culture was put in place. The members of staff were employed in particular for their motivation and their understanding of the company constraints. From then on, the factory had precise profitability and performance objectives which were specified down to the last worker. Several people interviewed described this organisation as an “American-style” organisation. According to an employee who had known the site under Alcatel’s ownership, the factory had gone from being a bureaucratic and administrative organisation to a genuine industrial SME.

With Valorics, listening and communication between the new management and its workers were strengthened. In fact, one employee does not hesitate to declare, “At Valorics you can ask for anything....apart from a salary increase!”

### **IV.3. Public service policies for employment assistance**

The public services for employment assistance (such as the Mons FOREM) participated in this restructuring in three ways.

Firstly, they managed the registration of all redundant personnel as job seekers once Alcatel had closed the factory.



Secondly, they participated on different levels in the recruitment and selection process of personnel for the new entity, MCMS. The second action consisted of several stages:

- notification of available positions
- coordinating the applications of the interested workers
- presenting the new structure and new working conditions to the persons concerned during group meetings
- organising psychological tests for the workers that were still interested
- compilation of a short list of candidates for Mrs Guaglianone to make the final choice

Finally, the Mons FOREM and the MIRE MB association<sup>11</sup>, allowed MCMS to employ personnel within the framework of a Business Training Programme (Plan de Formation d'Entreprise [PFE])<sup>12</sup>. This mechanism allows the employers to employ the person for a term that varies according to the amount of training required for the job. This method of employment incurs the least cost to the employer as during the entire training course of this person, FOREM continues to pay him all unemployment benefit to which the employer only contributes a small amount. While the person is on the Business Training Programme, he retains his unemployed position but receives a salary equivalent to that of a worker. After this training period, the employer is obliged to employ the person for a period at least as long as that of the training.

MCMS had put in place a four-week training programme:

- 1<sup>st</sup> week: theoretical training with an instructor
- 2<sup>nd</sup> week: observation within the company
- 3<sup>rd</sup> week: monitored work
- 4<sup>th</sup> week: unmonitored work

As well as training new workers, this mechanism could also test their motivation and abilities. Following the training period and the compulsory employment period, the worker or the employer could choose not to prolong the contract. This progressive employment process allowed MCMS to rapidly recruit competent and motivated staff.

#### **IV.4. Region**

Regional representatives played only a small part in this restructuring. Some acted as business consultants upon the request of the Production Manager to keep the company informed of the progress in the search for a buyer. The Mayor of Colfontaine at the time of the restructuring, Mr Biefnot, took part in meetings held by a group named "Pluralist Front of the Parliament". These meetings took place twice a month and sought to identify the political and economic problems of the region and to try and find solutions to them. Some of these solutions were proposed to the factory management at Colfontaine, who had generally already considered them. Even if their action has remained limited, these representatives have shown their interest in

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<sup>11</sup> Regional employment agency of Mons-Borinage (La Mission Régionale de l'Emploi de Mons-Borinage).

<sup>12</sup> This mechanism is now called an Insertion Training Programme (Plan Formation Insertion [PFI]).

the factory's situation and demonstrated their wish to see the activity continue in some form or another.

Another regional player, the Wallonne region, did play a decisive role in the transfer of the Colfontaine factory. By offering subsidies to businesses investing in the region, it helped retain MCMS interest in the factory and played a significant part in MCMS's final decision.

Other than these factors, the region was not involved either in the restructuring, or in the outplacement, or in the search to improve skills.

#### **IV.5. Unions**

Within the framework of this restructuring process, the actions of the corporate union officials were in general perceived as negative. Negative firstly because their sometimes untimely demands ended up giving the Colfontaine factory a regrettable notoriety. Because of these demands regarding issues that Alcatel considered to be technicalities, the site was often regarded by the group as a whole to be the "black sheep". On several occasions, people questioned stated that even if this reputation was not the primary cause of the decision to restructure, it was very possible that it influenced Alcatel's choice.

However, this action was also considered to be negative during the restructuring process itself. In fact, it seems that union officials were principally concerned with opposing the restructuring and then with defending their own interests. Furthermore, most witnesses questioned regretted the rigidity of their position and the lack of openness.

However, trade union officials were deemed to have taken far more positive action in that they sought to work in partnership with the site management to maintain activity. By participating on a regular basis in information meetings organised by the management, they were able to follow the developments of the proposal and offer their comments, ideas and suggestions on how to conduct the restructuring process. They were aware of the fact that they shared a common objective with the Colfontaine site management, which assisted greatly in establishing a consensus.

## **V. Case analysis: facilitating factors and prohibitive factors**

In order to make the most of this case study, it may be interesting to consider it from the angle of elements that, on the one hand, encouraged the successful implementation of the restructuring process and, on the other, elements that imposed significant obstacles that could have endangered its success.

### **V.1. Facilitating factors**

These factors can be identified in as much as they encouraged the initial decision to take up and implement the proposal to take over the business activity or that they facilitated the start-up of the new activity.

#### **V.1.1. Factors facilitating the adoption and implementation of the takeover project**

##### *Existence and identification of a segment of potential buyers*

In the case of the Colfontaine site, the closure was not linked to the disappearance of the sector of business, but to the transformation of the organisation of that sector of activity. Since traditional producers had dropped the manufacturing element of their business and new intermediary players had appeared, this encouraged the transfer of the Colfontaine activity from one to the other. The takeover relied on the identification of a segment of potential buyers.

If business had completely withered away, the stakes would have been very different.

##### *A peripheral activity for Alcatel*

According to Alcatel's lawyer, the re-sale of the Colfontaine site would certainly not have been possible if its business activity had been part of Alcatel's core business. As this activity was peripheral to the core business on which the parent company had decided to re-focus, Alcatel did not oppose the takeover proposal. This potential risk, if it survived, in terms of a threat to its core activities was minimal.

##### *Decentralisation of the action*

A key factor in the success of the takeover proposal seems to be the decentralisation of the action at local level to the management on the site. This decision was made upon the initiative of the takeover proposal, a proposal for which the local management received the go-ahead from the parent company and for which it was assigned considerable responsibility and involvement in its implementation. This decentralised action received the necessary means and resources from the Belgian CEO who strongly supported the project throughout its implementation and who showed enormous confidence in the motivation and abilities of the local management.

##### *A convergence of interests*

This takeover proposal had a far more unifying effect than a straightforward closure. By offering a clearer future, it seemed to be a more viable and humane alternative to closure. As a result, almost all the players concerned (local management, parent company, union officials, workers, regional representatives, employment assistance agencies, political authorities...) had a shared interest in the success of this restructuring proposal, and even if the stakes of one party or the other differed, they converged with regards to the interest of the proposal. Even if there was not always a consensus on how to manage transition, (keeping some of the information confidential, removing the protections of the corporate union officials, closure before takeover, etc...), all wished for the success of the proposal and were working towards a common objective: maintaining production on the site.

The various stakes that drove the players to support the proposal can be summed up as follows: the majority of players concerned were going to be directly involved in the evolution of the new entity. This was the case of the Operations Manager, the Human Resources Manager and some site workers. The stakes linked to their professional future motivated them to search for and accept a solution.

As for the CEO of Alcatel Belgium, he had a two-fold objective, which led him to support the takeover proposal. He wanted to present a positive image of Alcatel and, as future President of the Employers Federation for the Metallurgic Industry he wanted to reassure the social partners of this sector regarding his attitude towards a restructuring process.

Finally, other players, such as the trade union officials and local authorities, showed their support for the proposal, despite the difficulties that it posed and accepted to make concessions because they were anxious to retain an important business activity within a “devastated” region. More precisely, trade union officials’ wish to see this activity retained was a determining factor in the success of the proposal. They were able to “control” site union officials and to avoid all sabotage or strike action, which ensured that the production tool remained operated properly. They also accepted that a takeover would have to “pass through” a closure, once they realised that the remuneration costs involved under the legal protection of CCT 32bis would present a major obstacle to the takeover of the site.

#### *A united and complementary team*

The identification of a buyer was the result of work undertaken by a unified team with strong complementary aspects. This team was made up, on the one hand, of people working exclusively on the search for a potential buyer and on the other, of people running the day-to-day activities to ensure that they maintained a performing tool all the while allowing the former group to concentrate entirely on their task at hand. These people worked as a team by regularly communicating on the two types of task involved and by taking collective decisions.

Furthermore, the people responsible for finding a buyer had varied and complementary abilities, knowledge of the company’s products and manufacturing processes, understanding of the needs of the potential buyers and legal knowledge. The team had the necessary analytical and summarizing capabilities, a strong sense of solidarity and even a “certain cheek” in its methods of approach and in

negotiations. The roles within this group were clearly defined which ensured collaboration and transparency amongst its members.

Finally, the fact that it was required to report to one person only (the CEO of Alcatel Belgium) allowed for maximum simplification to the decision-making process.

#### *A low cost solution for the company*

The transfer of a factory such as the one at Colfontaine is, in the end, a less expensive operation than most closures. In fact, the strict closure of a site, with no possibility of takeover, involves a cost made up not only of the costs of the redundancy programme (laying-off of staff) but also often costs arising from the inability to resell the assets of the company (buildings, machinery), and even if this is possible these are sold at a greatly depreciated price.

Of course, investments were required to find a new buyer (provision of financial and human resources), but the sale of the factory and its machinery covered a significant proportion of these investments.

Therefore, it is reasonable to say that the ability of the site's management to convince the parent company of Alcatel that this risky approach held several advantages (maintaining the activity, image of the group, the CEO etc.) but, in addition, that it had a good chance in the medium term to produce a less costly result, was a facilitating factor.

However, this is not the cheapest solution, as a takeover without closure would have allowed Alcatel to save on the costs of the redundancy programme.

#### *Direct meetings with potential buyers*

The success of the takeover of the Colfontaine site by MCMS is due largely to the links that the team responsible for finding a buyer managed to forge with potential buyers in America.

Thanks to the American consultant, the Production Manager and the Project Coordinator were always able to meet the highest level of management of the companies they wished to approach.

Furthermore, visits to the factories of interested parties allowed them to better understand the needs of potential buyers and thereby better position the transfer offer.

Finally, the successive meetings with the MCMS management, often carried out in an informal manner, allowed the project group to forge a trusting relationship with the American manager, which was a determining factor in the decision to take over the Colfontaine factory.

### V.1.2. Factors facilitating the start up of the new activity

#### *Re-establishing confidence in the future*

Very soon after the start up of the new activity, the new management were anxious to re-instil confidence in the future in their staff by demonstrating a genuine wish for commercial and industrial development. This was done by hiring a full time sales executive, by a policy of investment in the production tool, and by issuing regular invitations to the clients to visit the factory etc.

#### *Maintenance of a social dialogue*

Even if MCMS decided not to re-employ former Alcatel union officials, the site management was careful to maintain dialogue with union officials. The desire to create a clearer social dialogue, based upon listening and seeking consensus most certainly played a role in the sustainability of production at the Colfontaine site.

#### *Retaining the management team*

The fact that the Production Manager and the HRD wished to retain their management positions in the site after it was sold, was most definitely an important factor in MCMS's decision to purchase the Colfontaine site. These individuals indeed had important skills required for the maintenance of production such as knowledge of the business process, the sector, local law, the future client Alcatel, union officials, the local partners, etc...

## **V.2. Prohibitive factors**

In order to successfully carry out the transfer proposal of the Colfontaine site, the team responsible for finding a buyer had to confront several obstacles which would have ruined the operation.

### **V.2.1. Significant labour costs**

During this case study, we encountered a convergence of opinion with regards to the inadequate costing of the active workforce on the site. This cost was identified by most of the players as one of the main obstacles to the success of the proposal. The outdated salary structure was based upon the ability of a large industrial group such as Alcatel, to offer salaries that were higher than the average for the region and the sector and also to re-evaluate them every six months. It also meant that after thirty years, this structure offered workers significant social benefits which represented direct additional costs for the company (various bonuses) and indirect costs (break times...).

One must remember that, according to the European directive of 14 February 1977 on transfers of undertakings, adopted by Belgian law by collective labour agreement no. 32 bis on 7 June 1985, the rights and obligations of the staff of the ceding company are transferred to the transferee. As a result, the transferee is obliged to bear a labour cost that is higher than if the transferee were to hire staff directly.

In the present case, Alcatel employees received salaries that were 20-30% higher than those offered by the market in the region. This major constraint posed a significant threat to finding a potential buyer. The American firms that were

approached quickly expressed their anxiety regarding the sizeable consequences of this obligation.

In the end, it was decided not to proceed with a transfer of undertakings, but with a complete closure of the site, followed by the opening of a new entity. In this way, the obligation stipulated under collective labour agreement no. 32, fell by the way. However, implementing a closure and then an opening represents far more work than a simple transfer because, amongst other things, it was vital to ensure that this operation could not be amended subsequently. In order to reassure MCMS regarding this issue, Alcatel had to guarantee that in the instance of amendment of the two-fold operation “closure then opening” into a simple transfer, it would bear the loss MCMS would incur! Therefore, in order to achieve a transfer of business that allowed the buyer to commence operating with labour costs that were relative to the market price, the different players had to deploy a lot of energy and demonstrate great motivation and imagination.

This case demonstrates that this directive, which aims to protect the social benefits of the workers, can sometimes go against their interests by reducing the opportunities for transfers and thus maintenance of activity.

#### V.2.2. Very significant constraints for starting up a business activity

It would appear that the takeover of the Colfontaine site could only have been undertaken by an already existing company of a certain size. In fact, a company that was just starting up would have had great difficulty in taking over an activity whose operating costs were and remain very high. On the other hand, large firms already have significant financial means, an existing clientele and order books that are full. A new player would have lost a lot of money before even finding outlets for the site's products, which would certainly have rendered the investment unwise. The need to find a buyer amongst existing and well-established companies narrowed the field of investigation.

#### V.2.3. Low participation of site union officials

In the case of the transfer of the Colfontaine factory, staff representatives (corporate delegates) seem to have shown a lot of reticence towards the proposal for identifying a buyer. Opinions converge on the fact that union officials showed very little inclination towards dialogue and a search for consensus.

The delegates were sceptical that Alcatel wished to employ every means necessary to find a takeover solution and initially refused to accept the closure and organised numerous demonstrations in order to force management to cancel the closure as a result of the strength of public opinion. The scepticism was further fuelled by the fact that some potential buyers insisted that management accept obligations of confidentiality during the process.

In the end, Alcatel's wish to close the site seems to have created a conflict of interest among union officials. According to all the people we met – which included old and new union officials – the removal of labour protections brought about strong tensions which slowed down the process. This system, which provides for far greater

compensation benefits for this category of personnel in the instance of redundancy, was “removed” by trade union officials, by virtue of the principle that the interest of the workers resides in equal distribution of available funds. Retaining these protections would have put a strain on the budget due to the hefty compensation benefits, and this would have resulted in a lower compensation for the workers than what they eventually received.

#### V.2.4. Awkward communication

In order to ensure the most success in the process of identifying a buyer, factory managers had to accept to sign confidentiality agreements with the interested parties. These agreements forbade them from naming the companies with which they were in contact or which they had already been able to visit. This obligation to exercise discretion rendered communication between the different partners of the project (unions, personnel, local and political authorities) particularly difficult. This discretion could at times have been interpreted as a sign of defiance on the part of the management in an environment where all partners had to be able to work together.