The Management Buy Out

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Executive summary

Can Management Buyout be considered an innovative management practice in company restructuring? In order to reply to this question, the Lentic team studied several cases of companies which had been bought by their management. It mainly concentrated on the restructuring of the Nestlé factory in Hamoir, Belgium.

Since 1932, the Nestlé company had operated a food production plant located in Hamoir, in the Liège province. Until the 70s, the site was in continual growth and in its wake came the development of the economic activity of the village and surrounding area. Subsequently however, there were successive reorganizations until September 2004 when the Nestlé group decided to part with the factory.

There then began the legal restructuring process with the procedure of informing and consulting employees, followed by negotiation of the labour agreement relating to the factory closure. The agreement anticipated measures both for financial compensation and for the setting up of a private cell for personnel redeployment. In parallel to this negotiation, the former site manager put together a business plan to buy the factory and managed to convince some of the management and personnel, financial organisations and the Nestlé group to follow him in his attempt to keep the concern going. Six months after the acquisition of the site, the new entity, "Belourthe", employs a third of the former workers and a large number of temporary workers. 76% of the workers who had been made redundant had found a new job, for the most part with permanent contracts.

The analysis of this restructuring, completed by interviews with other managers who have carried out a MBO, shows that several conditions are decisive in the success of a MBO. These include the activity bought, the rescuer, the company which is selling and the external aid...

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CASE STUDY

Management Buy Out

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I. Persons interviewed

COMPANY	POSITION	INVOLVEMENT
Belourthe	Management - shareholder	Employer
Nestlé Belgilux	National HRD	Employer
Nestlé Hamoir	HR employee – restructuring manager	Employer
Belourthe	Employee	Employee
Belourthe	Blue-collar worker	Employee
Belourthe	Manager	Employee
FGTB (SETCA)	Permanent secretary	Trade union
CSC	Permanent secretary	Trade union
Nestlé	Union representative – reemployment support unit	Trade union
Trace	Area manager	Consultant/Expert
Trace	Outplacement advisor	Consultant/Expert
Trace	Unit Manager	Consultant/Expert
IFP	Training advisor	Consultant/Expert
FOREM	Retraining unit manager	Public body
-	Private individual	Historic Nestlé expert – Impact on the region
Hamoir council	Burghermeister	Politician
Advanced Coating	Management - shareholder	Employer

II. General information

II.1. The *Belourthe Natural Food Ingredients* company

Belourthe Natural Food ingredients was founded on 1 January 2006. The result of a Management Buy Out, the firm's purpose was the operation of a food production plant located in the village of Hamoir (Liege province) and was formerly owned by the Belgian company Nestlé Belgilux, itself a subsidiary of Nestlé Switzerland.

During its first year of existence, in 2006, the plant is maintaining very close links with its former owner, Nestlé, since it is continuing to manufacture two types of products for it: frozen crêpes and infant cereal. This production is allowing the new entity to maintain a certain level of activity during the tricky period of prospecting for new clients. From 2007, infant cereal will no longer be produced on the site. The production of crêpes, however, will be maintained for 3 years at least. This guarantee of a decreasing production load needs to be compensated for by an external order book.

II.1.1. History of the group[1]

Nestlé was founded in 1867 by a doctor, Henry Nestlé, who had developed a baby cereal aimed at combating infant malnutrition. The Nestlé group was born in 1905 when Henry Nestlé's business merged with the Anglo-Swiss Condensed Milk company. Rapidly, the new entity spread geographically as plants were constructed or purchased in Germany, Spain, Great Britain and the USA. From the first half of the 20th century, the group also became a presence on other markets, including chocolate, coffee, frozen products, etc...

Currently, Nestlé is Switzerland's largest industrial company and the biggest agri-foodstuffs firm in the world. It employs around 250,000 staff, has an average of roughly 500 plants worldwide and buys or sells more or less 25 plants per year. For the last quarter of 2005, Nestlé announced a consolidated turnover of 91 billion Swiss francs and a net profit of over 6.5 billion Swiss francs.

II.1.2. Nestlé in Belgium

In 1925, Nestlé set up its first operation in Belgium with the creation of the firm Nestlé Belgilux.

In 1932, two Swiss men scoured the Ourthe valley looking for a site with the four characteristics required for the production of sweetened condensed milk: it needed to be a region with significant milk production and a sizeable labour force, as well as being close to a river and a railway line. They soon decided to construct their factory in the village of Hamoir and bought land in an ideal location on the banks of the Ourthe and adjacent to the railway station.

The site's activity developed rapidly, carrying an entire region with it: numerous local workers were hired, lorries brought milk supplies from 125 farms, local traders benefited from the spending power of the workers, and the hotel sector benefited from the presence of numerous Nestlé managers in Hamoir for training, etc.

Towards the end of the 1950s, the plant saw a boom in its activities courtesy of a significant increase in its exports. In 1971, the plant diversified by beginning to produce frozen items. It was around this time that the site employed the most people: around 300 staff in all. In 1995, the plant also began to supply Eastern countries.

At the start of the millennium, the Hamoir plant, Nestlé's last production plant in Belgium, was the largest company in the region, employing around 130[2] staff (including 15-25 temporary workers depending on orders), most of whom lived within a 10-15km radius, reaching all-time peaks in terms of production volume: 14,000 tons of infant cereal and 6 to 700 tons of filled frozen crepes. We are reliably informed that the plant's seniority enabled staff to build up numerous social rights over time, which is why the working conditions there were the best in the entire Belgian agri-foodstuffs sector[3]. Lastly, the length of service of the staff was between 10 and 15 years.

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[1] Sources : www.nestle.com

[2] Two restructuring operations (Cfr. Infra) and natural departures have reduced staff numbers from roughly 300 to 150 .

[3] This opinion is not shared by all the persons interviewed

Today, the Swiss agri-foodstuffs group numbers 1,400 staff in Belgium, spread across its 6 Belgian entities: Nestlé Belgilux, Nestlé Clinical Nutrition, Nestlé Waters, Nespresso Belgilux, Davigel Belgilux and Alcon Couvreur (ophthalmologic sector). In 2005, its consolidated turnover in the country came to 520 million euros.

II.2. Problems encountered

During the 1970s, the Hamoir factory ran into difficulties when the embargo against Iran prevented the plant from supplying this major client with the Nestlé products that were part of its people's daily rations. Subsequently, an initial restructuring programme took place in 1994 when, with a view to increasing its competitiveness, the plant decided to reduce its staff by releasing around thirty persons via two compulsory redundancies and the remainder via early retirements. It was from this period that the rumours began to circulate around the village that the site was going to close…

In 2000, recurring tension between a union representative and the management of the Hamoir plant led Nestlé Belgilux to dismiss and replace the plant's manager with the group's HRD in order to "restore order." For a year and a half, this person "restore a serene climate, reinforce the organisation and the management and reframe the plant's objectives and strategy in order to make the plant capable of competing with Nestlé's internal market in view of the day when worldwide export disappears.[4]". It hired the manager of a plant from the same sector as assistant and future successor. "

On 1 January 2002, the assistant became the site's director and modify lightly the team of 8 managers installed by the Nestle Belgilux HRD with the remit of improving performance and the quality of the products at a competitive cost price. In 2002, the initiative bore fruit, as the targets were reached and investment could be made. The local management was congratulated by the Nestlé Group directors. At this point, the factory had just under 140 staff.

In 2004, the Nestlé Group launched the Nestlé Globe programme, the aim of which was to improve the efficiency of the Group by working on 3 axes: "

1. To generalize the best practices
2. To standardize data and information circulating in the Group
3. To adopt worldwide an unique computer standard (SAP)"[5]

This programme entail, among others, a modification of the plant's organisation and operations as, for example, the standardization of the ingredient codes. The group also decided to launch a European rationalisation and harmonisation study of the *Infant Cereal* Business Unit, in order to optimise the cost of its plants via methods including the harmonisation and reduction of the number of recipes (up until then, roughly 200). The aim was to increase the profitability of this business unit which was not making enough money, apart from on the Iberian Peninsula.

In September 2004, an African logistics manager "inadvertently" sent an e-mail to the company's Belgian head office announcing the loss of external contracts by the Hamoir plant

[4] Precisions of the Nestlé Belgilux HRD
[5] Precisions of the Nestlé Belgilux HRD

and anticipating that in December 2004, Nestlé would announce its closure for the middle of 2005. One hour later, this e-mail was passed on to the Hamoir union delegation and the contents distributed throughout the company. Immediately, the union representatives met with the management of Nestlé Belgilux, who denied the information while confirming that discussions on the reallocation of foreign contracts were in progress.

At the start of December, the company called an extraordinary works council in order to inform the union delegation of a fall in production in 2005, from 14,000 to 10,500 tons. The social partners agreed to shot down for one week a month, while dismissing any job losses.

II.3. The restructuring operation itself

II.3.1. The announcement of downsizing

For a few years, a strategically group policy aim to create distinct areas of exchange between its different plants. In February 2005, its geographical delimitation meant the end of worldwide export practices practised in certain European plants, including the Hamoir factory.

At another extraordinary works council on 18 February 2005, the management of Nestlé Belgilux announced that, from 2006, the Hamoir plant would lose its contracts in Taiwan, Central Africa, Iraq, Arabia and Russia, equivalent to half its production (7,000 tons of infant cereal out of a total of 14,000) and that it would therefore be necessary to reduce the workforce by a similar proportion. The management justified its intention to let 60 of the 120 staff go by arguing that without this restructuring, the plant would not be able to remain competitive in the face of competition from the group’s other seven plants on the European market. During this same meeting, the company confirmed its desire to fulfil its commitments and to find a solution for those staff who would have to leave the company.

This announcement caused disarray among staff, who felt tricked by Nestlé: “The e-mail was right”, “Nestlé has led us right up the garden path,” etc. However, the personnel and its representatives decided not to try to contest the decision and to continue working in order to maintain the production tool. The Nestlé management, fearing a fall in staff work levels, reminded them of the importance of maintaining a high level of quality in order to ensure the viability of the site and to guarantee a proportion of the jobs. This attempt at motivating the workers bore fruit, as the quality level remained high. However, as the workers’ hearts were no longer in it, output dropped…

II.3.2. The negotiation of the downsizing

The Renault Law process thus started on 18 February 2005, with the first phase of information and consultation taking place over three months from February to April 2005. During this period, numerous extraordinary works councils dealt with both the causes of the restructuring and the presentation of counter-proposals from the union, which fell on deaf ears. The negotiation of the redundancy package took place during the month of June between the joint trade union front and the two HRDs, the site’s and also Nestlé Belgilux’s, who was named as negotiator for the management.

During this period, the local HRD contacted Belgium's other Nestlé sites, looking for new jobs for the Hamoir staff. Two positions were available and two members of staff therefore decided to go and work at another Nestlé Belgilux site.

Before the company's annual holiday in July, the social partners negotiated for 32 days and finally arrived at a preliminary agreement envisaging the retention of 72 of the 120 staff. This compromise anticipated a reduction of 11.8% of salary costs via the freezing of salaries, the scrapping of break times and the reduction of bonuses. It also envisaged the early retirement of 40 staff members aged over 52 and the redundancy of 30 employees on the basis of two criteria: absenteeism and adaptability (reactions to training proposals, participation in continuous development, etc.).

The social partners arranged a meeting for September in order to formalise the agreement. However, the HRD of Nestlé Belgilux informed the workers' representatives that this compromise would not permit the company to offer such competitive prices as those proposed by the group's other European sites and that it was not certain that Nestlé's foreign contracts would continue to be supplied by Hamoir for long.

II.3.3. The preparation of a disaster plan

During the same period, the site director withdrew from the negotiations in order to find solutions for reducing the plant's costs. Consequently, he obtained price reductions from several suppliers and convinced Hamoir council to scrap the tax on engine power (costing approximately €10,000 annually).

Nevertheless, these savings did not resolve the problems linked to the fall in production and the resulting increase of fixed costs per ton. However, the site director knew that within Nestlé's European plants, there exists a production overcapacity of powder produced by the drying technology and that this market is therefore no longer viable in the long term for the less competitive Nestlé plants. This situation was very problematic for the Hamoir plant, as since it is primarily of mono-product type, it would not be able to compensate for a possible fall in powder production, unlike the group's other European plants.

He therefore developed an industrial restructuring plan for the production tool with the aid of the site's operations manager and the advice of certain members of the FEVIA (federation of Belgian agri-foodstuff industries, of which he is an administrator), universities and various Walloon business clusters. He also held numerous discussions with the Nestlé group, its Belgian subsidiary and several financiers. In early July, he presented at Nestlé head office in Switzerland a conversion plan for the site based on the diversification of production. At the start of September, the group validated the solution but indicated that it could not take place within Nestlé and that it would be necessary – if it came to that – to envisage selling the plant.

Towards mid-September, the director heard news which he had been expecting for several months. Nestlé France, whose new director had been put under pressure by the group to restore the company's economic health, had decided to now obtain its supplies in Spain and Portugal, where the workforce is respectively 30% and 40% less expensive. After consideration, the site director accepted the group's proposal to oversee the factory sale project.

Very quickly, it became clear that a management buyout was the best solution for ensuring the continuity of the plant's activities. The site director then proposed to two[6] executives that they join him in the challenge. One of the two, the production manager, accepted as he possessed the company spirit, was attached to the plant which had employed him since he was 16 and was keen for the region to continue to have such a plant providing around thirty jobs. The second, conversely, was more hesitant.

II.3.4. The announcement of the plant's closure

On 23 September 2005, the day on which the preliminary agreement was due to have been signed by the social partners, Nestlé Belgilux's management announced the loss of the French contract and of the 3,500 tons intended for it.

Deprived of major export and of the French contract, the Belgian site was now obliged to spread all of its fixed costs on a lower 75% volume, which no longer permitted it to offer competitive products on its market at all. Nestlé Belgilux subsequently announced the closure of the plant for 31 December 2005.

The staff were devastated by this announcement as they had thought that the planned restructuring would suffice and never imagined that a profitable factory would be closed[7]. The trade union delegates declared that they had been "stabbed in the back" by the company announcing the closure at a works council of which the agenda was the signing of the preliminary agreement. The management, meanwhile, considered it pointless to sign such an agreement now that the plant was condemned. By announcing the closure before the signing of the preliminary agreement, it meant that the social partners did not have to recommence the Renault Law process and thereby gained precious time for the provision of support to the staff.

Nonetheless, the Nestlé Belgilux representative and the site director announced that they had been working for a few months on the development of a solution to respond to such a "disaster" scenario. The solution they proposed was the takeover of the site by members of its management in order to keep the plant in operation. This solution, which attracted a lot of coverage in the press, anticipated the hiring of 32 workers under the same conditions as those set out in the 2005 preliminary agreement but also thirty early retirements and 50 compulsory redundancies.

II.3.5. The negotiation of the closure

In joint front, the trade union delegation indicated its wish to disassociate this solution from the plant closure decision and therefore from the need to resume the process of the Renault Law begun during the previous restructuring phase in the spring of 2005. A representative was quoted in the press[8] expressing his desire to "*get tougher in the negotiations because Nestlé possesses the resources to pay for a plant closure*" and "*that the respect of the staff is*

[6] The other executives were not approached, either because they were taking early retirement, or because they came from other countries.

[7] Certain elements of the media talked about annual profits to the tune of one million euros. However, it seems difficult to confirm this assertion as the company was a cost centre for Nestlé and had the latter as its sole client. According to the plant director, the million euro would in fact constitute a profit in relation to the annual budget allocated by Nestlé on the basis of the site's forecasts.

[8] "Le Jour Huy-Waremme" newspaper, 24 September 2005.

going to require exceptional things" courtesy of actions *"in keeping with the will of Nestlé management to ensure a future for all*." Nevertheless, the employees decided to stay at work and to limit the expression of their bitterness, while blocking deliveries to France and showing excess zeal in product quality control.

During the information and consultation period, the workers' representatives submitted counter-proposals aimed at further reducing the wage bill by going beyond what had been negotiated in the preliminary agreement. They first proposed a reduction of 14% and then faced with a first refusal, asked Nestlé what reduction would be required to maintain 70 jobs. Nestlé again replied that this solution was impossible to follow as it would necessitate a reduction of salaries, which would infringe the legislation on this matter.

II.3.6. The resumption of the social plan

As the information and consultation period did not allow an alternative solution to the factory's closure to be found, the social partners moved onto the stage of negotiation of the social plan.

These negotiations lasted just two days this time, as the social partners had the common wish to finalizing as soon as possible. In view of the change of restructuring level, Nestlé management immediately agreed to commit itself to a wider social plan that the previous one. *"Nestlé has pulled out all the stops!"*, was how one witness put it to us. The social partners thus restarted from the point of the June preliminary agreement, while increasing the compensation packages. Moreover, the site manager and the production manager were concerned to learn, in the month of October, that almost all of the workers wished to take advantage of the redundancy payments and therefore planned to leave the company. Fortunately, Nestlé foresaw to include staff retention measures in the social plan in order to limit these leavings.

Signed on 11 October 2005, the collective working agreements envisaged a specific solution for each of the three different staff groups: those transferring to the new structure, those taking early retirement and those being made redundant.

For the staff being kept on, the agreements provided for the observance of CCT 32 bis, that is to say, the continuity of Nestlé working conditions. However, it was the working conditions negotiated during the June 2005 preliminary agreement which were retained. By way of a reminder, the efforts agreed to by the staff were then as follows:

- freezing of salaries,
- scrapping of breaks,
- reduction of the end-of-year bonus,
- modification of the team bonuses
- and reduction of gift vouchers.

As measures to accompany the transition, they would benefit from:

- a closure bonus calculated according to length of service
- a supplement for loss of revenue of €XXX gross per month during the year of 2006
- a "retention bonus" of €XXX per year of service triggered by a commitment from them not to leave Belourthe before 31/12/06.
- a stimulation bonus of a gross amount of €XXX at 125% per year of age

- and the possibility of obtaining support from the New Job unit in order to acquire the new skills called upon by the new position.

The social partners obtained from the Ministry of Employment a reduction in the age of access to early retirement to 50, thereby allowing around thirty staff access to it. The conditions for early retirement were as follows:

- prior notice calculated on the basis of the worker's overall salary, including various bonuses (shifts, team, seniority, etc.), extra hours, etc.,
- after the prior notice, the difference between the old salary and the unemployment benefit was covered 100% by Nestlé during the first 6 months, then at the level of 85% until pension age,
- a bonus of €XXX per year of service,
- the maintaining of subscriptions to the sickness and insurance contingency fund and complementary insurance until their pension,
- a closure bonus calculated on the basis of length of service
- and a reemployment bonus of €XXXX if they agree to register with the retraining unit

For staff being made redundant, the agreements stipulated:

- Prior notice calculated on the basis of the employee's overall salary, including bonuses for shifts, team work, etc.
- Prior notice of 3 months per 5 years of service
- A bonus of €XXX per year of service
- A "reemployment expenses forfeiture" bonus of €XXXX net on condition of participation in the support unit scheme.
- A stimulation bonus for finding another job (under CDI, CDD or interim of 13 weeks of work out of 25) of €XXX per year of age, decreasing gradually according to the speed with which they find a job (100% for the first 3 months, 80% in the period from 4 to 6 months, 60% in the period from 7 to 9 months, 40% in the period from 10 to 12 months and 25% after one year).

In addition, minimum compensation of €XX.XXX was guaranteed to all employees made redundant.

The Nestlé management also offered to fund the set-up of an internal retraining unit within the company. To do this, it released a budget of €150,000, with the possibility of a budget extension if necessary. Given the financial resources placed on the table, the trade union delegates accepted this solution, which was more reactive and flexible than the retraining units funded by the public sector. In order to offer this service to staff not wishing to continue the adventure within the new structure and without having to wait until the factory's closure, Nestlé proposed that a preliminary unit be set up from the start of November to mid-December.

It should also be noted that, from September, the trade union representatives were released from their operational duties in order to be able to support the workers on a full-time basis.

II.3.7. External aid

From September 2005, the local HRD made contact with the two temping agencies which the site used for its temporary staffing needs in order to choose a partner capable of helping the company both to select its new staff from among the old Nestlé employees and also to deliver support to those not being rehired. The company Trace was selected as it was in a position to get these two roles up and running in a very short period, namely two days. A firm contract then covered the selection of the personnel who would be kept on and the implementation of a preliminary support unit for those workers made redundant or taking early retirement. At this point, Nestlé did not agree to sign the contract for the management of the unit as it was. Its launch not being legally possible until after the site's closure in January 2006[9], Nestlé decided not to sign the contract until that time and only if the results of the preliminary unit were positive.

For the support of the workers not rehired, Nestlé also asked for the intervention of the IFP[10] in order to benefit from its experience of the agri-foodstuffs sector and of the training which can be provided there. The not-for-profit body also carries out (Cfr. Infra) the funding of certain training, offers the validation of skills and permits the distribution of job searches within the sector.

During the month of October, the plant director summoned each Nestlé employee to ask them if they wished to continue the adventure under the new structure. These interviews were also an opportunity for the director to inform those persons about whom a decision had already been made, one way or the other.

Very rapidly, two groups were emerging among the staff: around forty employees wanted to continue to work at the site, while roughly forty others preferred to "start afresh". The wish of half the staff not to continue working at Belourthe can be explained in several ways: certain employees did not wish to go back to work at a site from where they had just been made redundant, while others did not believe in the project as they had not been convinced by the director's presentation. Others still knew that their chances of being rehired were next to none, either because they had shown themselves to be too militant in the past or because they had adopted behaviour regarded as insufficiently cooperative. Finally, there were many in whose interest it was "to reject being taken on again, either because they were going to receive high compensation and a long period of prior notice due to their length of service, or because they were sure of finding a job elsewhere and would therefore benefit from redundancy payments as well as maximum incentive bonuses (Cfr. supra).

II.3.8. The selection process for the Belourthe employees

Two days after being awarded the role, Trace's recruitment department spent three days meeting the staff who wished to stay on the site and putting them through several tests permitting the assessment of their capacity for change, their versatility and their team spirit. In parallel, the site director, the local HRD and his assistant drew up a list of workers whom they wished to keep on. This task was carried out with the aid of the heads of department, who

[9] In accordance with the new legal obligations arising from the solidarity pact between the generations (Cfr. Infra)

[10] "Agri-foodstuffs industry professional training initiatives", a sectoral training fund supported by contributions from businesses and jointly managed

were asked to situate each employee in a skills grid in order to be able to establish a ranking. In a second period, the two selections were cross-referenced and found to have produced results that were 85% similar. For the other 15%, the opinion of the management was decisive. Lastly, a debriefing on the decision was organised for each employee, some of whom were greatly disappointed, having wrongly believed that they were going to be kept on.

II.3.9. The New Job unit

In September, Nestlé leased premises located in the village's presbytery to Hamoir Council in order to house the New Job unit for one year.

This unit was coordinated by the local HRD and his assistant and was led by two advisors from Trace's outplacement department, by a member of the IFP[11] and by a social support officer, a former trade union representative from the site made available by Nestlé.

In October, the HR department organised information sessions in order to explain to staff the manner in which their support was going to be organised and the role they were going to play in it. These sessions were organised into sub-groups: two groups of early retirees, two groups of production operatives, a group of technicians and a group of white collar staff (including managers).

Then, less than a week after the obtaining of the contract to set up a preliminary unit, the Trace outplacement service, without Nestlé, met with all the beneficiaries collectively, in sub-groups and individually in order to allow them to react freely, *"so they could express their resentment."*[12]

The employees also met with the IFP's training manager, who explained to them the services that his body offers to workers affected by a restructuring operation: full funding of public or private training aimed at a clearly agreed employment objective in the same sector or not, sending of targeted emails to the foodstuff companies in the region where the staff made redundant are seeking a new job and advice and support in the certification of skills using special software. Certain staffs were also permitted to follow training funded by the IFP in order to obtain an official forklift truck driver's licence and/or a heavy goods vehicle licence, while others attended mecatronics training at the Technifutur skills centre, certain followed introductory training to SAP, etc.

The temping agency also organised collective themed workshops to allow staff to build a new professional project, such as the creation of a curriculum vitae, job interview simulation, etc.

Furthermore, the early retirees were also informed of their situation and the rights and obligations resulting from it.

In late December, the subcontractor signed the contract for the organisation of the unit. Divided into three phases (two lasting 4 months, then the last until the end of 2007), the

[11] IFP is a non-profit association the aim of which is "Training initiatives for the agri-foodstuffs industry." It receives sectoral training funds for the Foodstuffs sector.
[12] Expression from a member of the Unit

project started on 9 January 2006 and was implemented in observance of the new state legislation[13] on the subject.

The first two phases provided for collective support and, on request, individual support. The last stage, meanwhile, consisted of personalised monitoring of the remaining participants.

The results of this support proved very positive as, by 30 June 2006, 76% of the 53 beneficiaries had found a job: 44% were benefiting from unlimited term contracts, 24% were in trial periods (temporary or fixed-term) before the awarding of an unlimited term contract and 8% were working on temporary contracts. Of the remaining 24%, 8% were working on a personal project, 8% were still looking for a new job and 8% no longer wished to work. According to several personnel sources, the success of this unit can be explained by the incentives offered by Nestlé to these (future) former workers: a reemployment bonus of €5,000 for taking part in the support programme and a stimulation bonus of €250 per year of age, gradually decreasing with the time elapsing between the two jobs. In particular, the fact that this last phase takes into account temporary employment is presented as a success factor because it pushes the beneficiaries to use this avenue whereas, under normal circumstances, most would have rejected it due to its association with instability.

Nonetheless, the working conditions of these new posts were, most of the time, more difficult that in the Nestlé era as the salary was often inferior (especially for the temps) and the place of work almost always far from Hamoir, where the majority lived.

II.3.10. <u>The development of the Management Buyout</u>

During the same period, from September to November 2005, the site director studied the different possible solutions with the aid of a taxation expert and a corporate lawyer. Their study focused on the different ways of financing a takeover of the activity, through the banks and the public authorities. This task force also met with an official from the Ministry of Employment and the Ministry of Finance in order to consider with them different types of possible aid (investment incentives, tax deductions, etc.).

In parallel, the production manager planned a new series of openings for the site and performed various tests in order to verify their feasibility. The second executive recommended for involvement in the MB preferred to take his redundancy payment and therefore rejected the proposal.

The project established had the aim of creating a new legal entity to produce dairy product-based food ingredients aimed at new clients, including, initially, chocolate makers. The maintaining of the activity was judged to be viable, as although the cost of the workforce was high there, it was offset by the existence of demand on the market for production using a

[13] This is the solidarity pact between the generations, published in the Moniteur Belge on 30 December 2005. This document contains an item entitled “dealing differently with restructuring”. To do this, three phases are envisaged. The first concerns the establishment of a social plan envisaging an adaptation of the Renault Law to limit to 2 months the constitution of the plan and the development of the following points: search for alternative solutions within the company, creation of a jobs unit, identification of persons wanting early retirement and departure bonues for those who leave the company voluntarily. The second is aimed at the mobilisation of staff via a jobs unit and encourages (forces) staff over 45 years of age to take part. The third phase allows the early departure of staff but requires them to remain available for work. *Confidential source.*

drying technique[14], by the level of quality of the products and by the plant's high rate of productivity.

In order to support the project, the Nestlé group offered to obtain supplies from the plant during a 3-month transition period in a gradually decreasing manner: Nestlé would buy 4,000 tons of infant cereal until the end of 2006 (2/3 during the first half of 2006 and 1/3 during the second half) and would continue to source its frozen crêpes there for the Belgian market for 3 years, to the tune of 400 tons per year[15]. However, the group made its aid conditional upon the rehiring of a minimum number of staff.

Numerous banks showed an interest but refused to commit themselves as long as a fiscal risk existed linked to Nestlé's past activity and the activity takeover process. The director consequently asked the Ministry of Finance to activate as swiftly as possible the *"ruling"* procedure which consisted of the rapid analysis by the administration of a dossier in order to guarantee its fiscal regularity. This guarantee was obtained after six weeks.

At the start of December, several banks gave their agreement to fund the project and two of them competed to offer the most advantageous loan conditions.

The director also secured other financial resources: the Sowalfin[16] and Sodie Liege[17] Funds agreed to grant him a subordinated loan. To be repaid at the market rate, this type of loan is regarded as own funds and therefore serves as a bank guarantee. Moreover, the Meuseinvest[18] body declared that it was prepared to take a stake in the company's capital during a second period, in order to finance its growth.

II.3.11. The reopening

The new company, *Belourthe Natural Food Ingredients*, was launched on 2 January 2006.

As envisaged in the agreement with Nestlé, the two executives took over the site's assets, the buildings and technical facilities (with the exception of one machine used for the production of infant cereals which will be removed from the plant at the end of 2006) for a favourable price.

The agreement also stipulated that the new structure could develop a new brand of frozen crêpes for export as well as for the Belgian market, with the exception of volume retailing, which Nestlé reserved for itself.

Belourthe Natural Food Ingredients was also free to develop its own food products, with the exception of infant cereal, for which a non-competition clause was drawn up.

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[14] The over-production of powder only existed within Nestlé's European plants. On the rest of the market, the competition was less acute and no Belgian company possessed this technique.
[15] This purchase guarantee enabled the company to fund 10 jobs.
[16] Walloon Society for the Funding and Guarantee of SMEs, created at the initiative of the Walloon Government in 2002. Source: http://www.sowalfin.be/
[17] Private company commissioned by the Arcelor Group to take part in the economic redeployment of Liege Province. Its target is the creation of 2,700 jobs by 2009. Source: http://www.sodie.be/liege.html
[18] The Meusinvest group, made up of public and private partners, contributes to the development and economic redeployment of the Province of Liege by participating in the long-term funding of business projects. Source: http://www.meusinvest.be

II.4. Results of the operation

II.4.1. Results of the operation in terms of maintenance of activity

At the time of writing these lines, the activity on the Hamoir site continues and is fully guaranteed until the end of 2006 and in part at least until the end of 2008 (production of crêpes). Beyond that, the plant will survive if its management proves able to find new clients and to retain and develop the skills of its staff.

II.4.2. Results of the operation in terms of jobs

The maintaining of the Hamoir plant’s activity has enabled the jobs of 34 Nestlé staff to be “saved”. Since its creation, the new company has also had to recruit several new staff, mostly technicians, in order to ensure the plant’s activity as certain posts were almost totally deserted. It has also had to employ 27 temps in order to ensure the production guaranteed by Nestlé.

The New Job unit has also permitted the reorientation of numerous employees made redundant by Nestlé. By way of a reminder, 76% of the 53 staff found employment in CDI or CDD and 8 employees are currently doing temporary work. Furthermore, 16% of the beneficiaries of the unit are currently in training or working on personal projects in order to find new jobs.

At its start, Belourthe also employed around fifteen former workers on temporary contracts in order to facilitate the relaunch of the production tool. These persons, who had obtained all the compensation measures for redundancy, did not cause jealousy on the part of their rehired colleagues (who did not therefore receive such bonuses) due to the difference in status separating them: the temps have inferior working conditions and do not have job security.

Currently (July 2006), the company numbers 37 employees under contract and between 20 and 30 persons on temporary contracts (3 of them former Nestlé staff).

However, the working conditions have been more difficult since the takeover. On the one hand, the work load has fallen little compared to the reduction in the number of workers, which results in an overload of work which is accentuated by the employment of numerous unqualified temporary staff. On the other hand, the conditions retained on the basis of the preliminary agreement provide for fewer days’ leave and lower overall pay (Cfr. Supra). Lastly, around 10% of the rehired staff are having a hard time adjusting to the change in mentality within the company, which has gone from a multinational to an SME.

II.4.3. Cost of the operation

It has not been possible for us to obtain a precise breakdown of the cost of the operation. The director has just indicated to us that the operation cost “several million euros”. This amount includes, amongst other elements, the budget of €150,000 for the funding of the New Job unit.

Nevertheless, the management buyout has enabled Nestlé to save money, as the group has not had to pay compensation to the rehired workers, has not been obliged to clean up the site, and has been able to sell stock a part of which would have had to be thrown away and has been freed from the social liabilities relating to the rehired workers. Moreover, Nestlé has been able to make use of the plant's production during the buffer period required before other group plants could take over.

II.4.4. The perception of the operation by the different parties involved in the restructuring

II.4.4.1. *The staff*

Out various sources of information (media – interviews) all converge to indicate that the staff of Nestlé Hamoir have faced this difficult period with a great deal of dignity and courage. Proud of the quality of their work and despite the suffering endured because of the situation, they have at no time decided to harm either the closure process nor the site takeover operation. On the contrary, they have endeavoured to maintain high-quality production. The two main explicit manifestations of the workers' disarray have been a rise in the rate of absenteeism and a fall in output. This is because many of those who knew they would not be rehired chose to go sick and the staff present no longer had any motivation due to their uncertain future.

After the takeover of the activity, there reigned among the remaining staff an atmosphere full of enthusiasm as they had been chosen by the management and were therefore "the best" and because they had a significant challenge to overcome: making the activity permanent by increasing the quality of the products and the productivity rate.

However, six months after the takeover, it appears that a certain number of workers are beginning to lose their motivation, for a number of different reasons. First of all, the situation is still not permanent as the new contracts are still not being awaited. Moreover, the company continues to operate with an insufficient workforce and many untrained temporary staff, which represents an increasingly tiring[19] excessive workload. Furthermore, several workers now have new responsibilities, which is proving difficult to manage as they have to be trained "on the job" and often with the aid of experienced colleagues who, in many cases, would have preferred to have left the company. Moreover, around 10% of staff have not adapted to the management changes resulting from the passage from a large company into a SME. Finally, many of the skills which disappeared with the closure have not been replaced.

II.4.4.2. *The trade unions*

In the Nestlé era, the Hamoir plant had a union delegation regarded as strong. As a result of a balance of power on the social side due to the plant's long history, the representatives had become essential for all management decisions. In a general sense, there existed little industrial tension as the workers' complaints were mostly heard, which led one of our witnesses to remark that *"industrial peace had been bought."*

The different types of parties interviewed all agree that one of the trade union delegates on the site was at the root of the majority of industrial unrest. Member of the Christian Union, the majority union representative with 85% of the votes, it seems that he was in favour of the confrontation in the social dialogue. In this way, this person would be one of the main causes of the management change in 2000. Moreover, testimonies converge to indicate that, concerning the welfare benefits, he put his own interest ahead, to the detriment of the

[19] For example, one witness repeated the words of a worker to us: *"Now, when I get home, I'm tired."*

common interest. Several claimed that he threatens the temporary workers to never obtain open ended contract if they didn't vote for him during the social election and/or didn't support him in his decisions. However, during the last years, the delegate has gradually lost his power. During the elections in 2003, half of the traditional Christian Union's affiliated members shifted to the socialist union to express their disagreement with his behaviour. Among the 50% remaining, a short majority voted nevertheless for him. During the Renault Law process, in the spring of 2005, intense tensions opposed him with its permanent secretary, to such extend that this latter decided to dismiss him from his duties. However, this decision had been cancelled by a senior executive of the union within 24h. Finally, it seems that this person tried to incite the workers to decline a new job in Belourthe. According to the new director, his objectives was to wreck a project through witch he had not any power…[20]

The long process of restructuring was entered into by the union delegation in joint front and in a very attentive manner. During each phase, the union seems to have played its role in a highly professional fashion: request for information, counter-proposals, negotiations of a favourable social plan with the workers, search for equity between the different groups of staff, appeasement and control of the latter in order to avoid any outbursts, etc.

After the takeover of the activity by Belourthe, the social dialogue was profoundly transformed. First of all, because the new employment conditions were accepted by all staff and could not therefore be the subject of subsequent complaint after such a short time. Finally, because all that remained of the old structure was a single union representative, regarded as "moderate" and because the replacement representatives understood, like him, the language of survival being spoken by the management and played a part, wherever possible, in the achievement of the fixed targets. Consequently, one witness stated that "the delegation is now more one of involvement than opposition."

II.4.4.3. *The company's management*

The local management of the company played a crucial role in the process of maintaining activity at the Hamoir plant. First of all, the director was, on his arrival, able to take over the management of the site and to improve its competitiveness. This same person then had the foresight to anticipate the company's future difficulties and, in time, was able to develop a disaster plan. The local HRD, meanwhile, accompanied the Belgilux HRD in all of the negotiations with the union representatives. Subsequently, he managed the creation of the unit of which the set-up conditions seem to have been propitious to a significant reclassification rate.

However, a workers' representative indicated to us that the site director still did not have the calm needed to conduct negotiations with the trade union representatives. This would also be one of the reasons why he took little part in the company restructuring and closure process.

II.4.4.4. *The Nestlé Group*

Retrospectively, this long restructuring process in fact follows the "classic path" for restructuring anticipated by the Nestlé group. Basically, this latter has formalised the

[20] Note that we have not been able to meet this union representative, retired. However, because the totality of the witnesses had the same testimony about this person, we think that this convergence of points of view merited to be mentioned.

succession of stages to be followed in order to manage problems at its plants. In an initial stage, Nestlé attempts to redress the situation via an “output improvement plan” providing for reorganisation and investment, as was the case in 2000 with the replacement of the local director by the group HRD. If this step does not suffice, the second stage of **restructuring and downsizing”** focuses on reorganisation and a reduction in the size of the structure. Nestlé’s Hamoir plant went into this stage in February 2005. The following stage analyses the possibility of selling on the business via a Management Buyout” where Nestlé offers the management the chance to purchase the site, analyses its business plan then proposes concrete aid for the relaunch of activity, as was eventually the case with Hamoir. The last stage envisages the pure and simple sale of the site. In this case, Nestlé looks for a non-competitor company interested in the purchase and offers a sale price associated with a non-competition clause. These last two stages do not signify the total end of contact since the new entity is placed in competition with other *co-manufacturers*, often as special suppliers of Nestlé. During this restructuring, however, the Hamoir site could not be regarded as a special supplier as the main product it manufactures, infant cereal, constitutes Nestlé’s core business, the only part of production that the group refuses to subcontract. It is also why the transition period for the manufacture of these cereals was limited to one year, a much shorter period than Nestlé’s “normal” support within the framework of other restructuring operations.

According to the persons interviewed, the significance of the financial resources put in place by Nestlé during the plant’s closure can be explained in two ways. On the one hand, the company has always wanted to behave in a socially responsible manner. Consequently, it defends family values, well-being, etc. On the other hand, the company has always passionately defended its brand image and is aware of the damage that can be caused by a protest campaign, especially in the agri-foodstuffs sector. This is certainly the reason why, in this restructuring, the company always preferred the term “contract reorganisation” rather than “relocation”, and then “reorganisation” rather than “closure”. Certain witnesses adjudge that the first explanation is paramount, while others hold the opposite view.

However, in the initiative to keep the plant’s activity going, the group limited its aid to that of moral support. The site director was given all the scope to pursue his objective but did not benefit from concrete aid from the parent company or from human and/or financial resources. According to the Group’s HRD, this position is due to the wish of Nestle to always encourage the future new owner to establish a business plan independent of the assistance of Nestlé. It is only subsequently that Nestlé agrees to help to maintain the site’s activity.

So, once the takeover project was established, the group did help the company to get it off the ground: apart from the 2 purchase clauses already mentioned, it granted payment facilities to the new entity by allowing stock to be paid for in four instalments and guaranteed payment for products 30 days from end of month, an extremely favourable period for the sector which saved Belourthe from having to constitute significant working capital. Moreover, in view of the attractiveness of the social plan for the personnel made redundant, Nestlé also agreed to fund incentives to encourage certain staff to stay on.

II.5. Innovations in terms of socially responsible restructuring

In this case study, it seems to us that the innovation resides in the combination of two socially responsible practices: the MB and the support unit for staff made redundant.

The development of a management buyout assures the continued activity of a site, even if it is located in a region not possessing the characteristics sought by entrepreneurs for the location of a business. Hamoir is essentially a rural village situated over 20 km from any motorway, the railway which runs through it is dilapidated and the River Ourthe has not been a navigable waterway for a long time. Nevertheless, the maintaining of activity provides around forty direct jobs and supports the economic activity of the whole village. Furthermore, the MB is different from the "straightforward" takeover of the site on account of the knowledge of the business possessed by the staff who have resumed activity there. Lastly, this initiative makes the site attractive, as the fact that Belourthe is not using all of the premises left by Nestlé makes it possible for a new activity to be developed on the site. Discussions with a water bottling company are currently taking place with this in mind...

Moreover, the set-up and funding of a retraining unit strikes us as a second socially responsible measure that should be encouraged. In contrast to the social plans often encountered in Wallonia, the one being studied here did not devote the entirety of the company's "budget" to financial compensation measures for staff made redundant. Although these measures are necessary to enable these persons to have a transition period between two jobs, being content with that often inures the employee to his own fate and he or she consequently feels helpless in the search for a new job. What's more, the financial resources made available by Nestlé permitted the implementation of several specific measures favourable to the success of the unit's role. Upon the announcement of the company's closure, the staff were monitored by the preliminary unit team and were therefore able to exchange opinions on the impact that this announcement had had on them and were able to look for a new job even before being laid off. The very early and swift taking in hand of the staff who were going to be laid off is regarded as one of the key factors in the success of the employment unit set up by Nestlé. It this way, it is different from the retraining units managed by the public authorities, which are only set up at the end of the entire restructuring process, when the redundancies have taken place, and require sometimes lengthy negotiations between the different parties involved before they can be launched effectively. Neither do they possess the kind of financial resources provided by Nestlé to promote the retraining of the laid-off staff. Nestlé also enabled the creation of a powerful incentive to look for a new job rapidly: the stimulation bonus. Lastly, the beneficiaries of this New Job tool were able to rapidly enrol on private training courses, which was only possible due to the financial resources provided by Nestlé and could not have happened within a public unit,.

II.6. Future prospects

In July 2006, the future of the Hamoir site is still uncertain as the business plan is based on a major condition which has not yet been fulfilled: the arrival of new clients to make up for the reduction, then end, of production for Nestlé. Fortunately, the Nestlé plants are still not in a position to totally take over Hamoir's production, which is allowing Belourthe to produce more than had been planned.

At the current time, several commercial opportunities are being concluded but the negotiation processes are particularly slow and long coming to fruition in this sector, as they are interspersed with tests for quality, conformity to the client's requirements, observance of strict rules permitting food safety to be ensured, and various accreditations (kosher certifications, for example), etc.

Moreover, one of the conditions for success will be to maintain and develop internal skills. But after six months of activity, the management of Belourthe observes that approximately 10% of its staff have not managed to adapt to the switch from a multinational to an SME. This situation is all the more problematic for the fact that Belourthe has inherited the social debt relating to the rehired staff and that the redundancy payments for these persons would represent a considerable burden on its finances. In addition, as mentioned above, the workers' enthusiasm is tending to fall due to the stress and overwork linked to this transition period. There is a considerable risk that several will decide to leave the company once they have obtained their retention bonuses, yet it is clear that the key skills within the company rest on too few shoulders. That is why the production director is planning to set up training courses from the end of summer 2006.

As well as prospecting for new clients, the management of Belourthe is involved in three R&D partnership projects developed within the framework of the Walloon Marshall Plan[21]. One of these projects[22] envisages a partnership between the different players from the chocolate powder production field, ranging from dairies to chocolate manufacturers. Besides commercial development, this project pursues another objective: Belourthe, which has just invested €500,000 for the creation of new product production lines, can currently only benefit from a subsidy of between 4 and 6% because Hamoir is not located in one of the priority zones (where subsidies can reach 20%). However, any company which takes part in a Marshall Plan is likely to be able to benefit from a doubling of subsidies.

In addition, a project exists for the sharing of the site infrastructure. This consists of a company which is studying the creation of a bottling plant for water destined for non-governmental organisations' humanitarian aid programmes.

II.7. Transferability of the case studied

The persons interviewed as part of this study consider that the maintaining of activity through the MB could easily be transferable. The interviews with several directors who organised the MB bear this idea out.

On analysis, several conditions emerge as being determining factors in the success of an MB. They relate to the activity taken over, the taker-over, the transferring company and external aid, most notably access to funding. The success of an MB project seems to depend on the conjunction of these four types of determining conditions.

The activity taken over

The Nestlé experience and the interviews held with other directors involved in the MB initiatives show that the activity taken over or to be taken over should not be directly connected to the core business of the company likely to transfer the activity affected by the restructuring. The MB project has more chance of succeeding if it targets an activity complementary to the core business of the transferring company as it avoids any risk of competition for the latter. This condition can be found in the restructuring of the Hamoir plant in the shape of the ban, for the taker-over, of manufacturing infant cereals on its own behalf,

[21] This plan targets the promotion of competitiveness centres – including one in the agro-industry field. These centres should develop partner projects which, if they are selected by the Walloon region, would benefit from public subsidies.

[22] Due to the necessary coordination efforts, the other two projects will be submitted in 2007.

as this remains Nestlé’s core business. In another restructuring case, the proposed takeover of the activity by executives of the Belgian site of a Canadian multinational, which was strongly supported by the unions, was rejected by the parent company. One can observe that, in this case, the activity which was the subject of the restructuring was directly linked to the core business of the multinational, which has, moreover, relocated it to a country with a cheaper workforce.

The activity should also present a profile of viability, either because it is already profitable, or because it is estimated that it could be so if it became independent or if it was taken out of its current organisational context (increased flexibility and adaptability, better negotiated purchase costs, new employment conditions, etc.). In the case study which concerns us, the decision to transfer the activity from the Belgian plant was taken because its profitability threatened by the end of the worldwide export. The question of profitability is central to the obtaining of the funding required for its takeover. The case studied and the other interviews conducted with the executives involved in an MB show that viability also depends on the preservation of the production tool, its maintenance at a high level of technical advancement and regular updating. Activity takeovers have proven highly risky in cases where the transferring company has let the production tool deteriorate or age. In Hamoir’s case, the company’s local and central management, as well as the workers, had ensured the maintenance of an efficient production tool.

The taker-over

Whether single or collective, the taker-over also seems central to the success of an MB operation. Alongside the skills needed for the operational management of a business, the development of a market strategy and the management of work relations required of any company director, it seems that the in-depth knowledge of the activity to be taken over and its operating conditions aid the successful realisation of an MB takeover. However, this knowledge of the activity is not sufficient in itself, for it must be allied to the ability to make decisions, delegate, take an overview, etc. The interviews conducted highlight the importance of being surrounded by a team with mastery of the management of production, human resources, finances, marketing, etc.. In the current case, the main taker-over of the site was its former director, so he knew very well how it functioned. His previous experience as director of an SME had enabled him to acquire or to implement the skills required for the management of a company of this size. Lastly, his involvement in local business environments and within the Belgian federation of agri-foodstuff businesses had given him good knowledge of the sector, of its main players and the different constraints peculiar to it. These different elements are also credibility factors which come into play during negotiations with the transferring company and the external bodies, most notably financial ones, called upon to intervene in support of the project.

The transferring company

The transferring company also plays a role in the success factors of an MB operation insofar as it controls both the decision to transfer the activity and the decision to support the new business project. Its positive intervention in this type of initiative depends on the direct or indirect interest that it finds in the maintenance of the activity being restructured. This interest might be of several types: the wish to be socially responsible, fear that its brand image could be tarnished by a closure, calculation of the cost of a closure that would be greater than the transfer of the activities, the possibility of being supplied at a better cost by the newly created company, etc.

The interest of the transferring company should be such that it permits not only the transfer of the activity but also helps facilitate the takeover of the production tool by means of a period of accompaniment and/or support of the new structure. In the case of Nestlé, the desire to appear socially responsible, to protect its brand image and to achieve a restructuring operation that was less costly than a closure seems to have come into play both in the decision to transfer the site and to make a contractual commitment to support the new activity for a defined period. This commitment manifested itself in purchase promises lasting three years, payment facilities for the takeover of production, retention bonuses for the workers, etc.. Similar commitments can be found in other examples of MBOs we know about: they are frequently made by large multinationals strongly involved in the region affected by the restructuring and anxious to preserve both their image and to act in the interests of the different parties involved. It also seems that, eventually, the new company can only ensure its viability if it succeeds in no longer depending on the original company.

External aid

A Management Buyout also requires the taker-over to have access to external aid to put together his business project and most notably to fund it. This is because the purchase of the activity necessitates the possession of financial resources which are often superior to the capacity of the managers setting out on this adventure. Apart from one case of an MB where the takeover was funded with own funds through the investment of redundancy payments, the majority of cases encountered, like the Hamoir case, are dependent on access to external financial aid for the takeover of the activity. The involvement of financial bodies is therefore important for the success of an MB project, although it is still sometimes difficult to convince them of the project's viability. In our case, the project's funding would not have been possible without the involvement of two investment funds, one regional, the other connected with Arcelor (the SODIE) offering subordinated loans, and of a banking institution which opened a line of credit. This latter would not have agreed to get involved with the project without being assured of the non-existence of a fiscal risk, via the Ruling procedure of the federal administration. This accelerated procedure enables the absence to be proven of a fiscal debt that might hinder the profitability of the activity taken over from the outset.

It is interesting to observe that in this studied case, a tool implemented by the company Arcelor within the framework of the significant restructuring linked to the closure of the Liege blast furnaces[23] helped to support a conversion linked to another restructuring. For the different executives interviewed, access to the funding remains both crucial for the success of the MB operation and difficult to obtain due to a lack of financial structures active in venture capital.

The other aspect of the management of the Hamoir restructuring which seems worthy of interest is the set-up of an internal employment unit for the relocation of the workers not being taken on by the new activity. The transferability of an initiative of this kind depends first of all on one crucial and perhaps rare condition: the capacity of the company carrying out the restructuring to release fairly significant funds to finance both the compensation packages and the support of the workers whom it is letting go. The sums allocated by Nestlé's management helped both motivate the employees to look for another job by means of a

[23] By way of a reminder, the company Arcelor announced in 2004 the closure for 2009 of its blast furnaces in Liege, resulting in the loss of 2,700 jobs within the region. Among the commitments made by the firm to support the region's industrial retraining efforts was the creation of an investment fund designed to support business creation projects, the SODIE, the role and functioning of which are similar to the instrument developed in France during the thirties by Usinor

reemployment bonus, and to provide them with a private outplacement service comprising both active job search aid and up-to-date training.

There is no doubt that few companies in difficulties possess such financial resources. However, this case could nevertheless inspire multinational groups who are restructuring local sites not for reasons connected with the site's direct profitability but rather to increase in a significant fashion their returns on investment and to stimulate their share price. In situations of general financial restructuring[24], it seems realistic to encourage companies with assured financial resources to get involved in initiatives of this type in respect of the staff affected by the restructuring.

It should also be noted that the earliness and speed with which this unit was set up also proved crucial to its success. An interview with one of the managers of the retraining unit set up and managed by the public employment and training service, FOREM, highlighted that one of the main stumbling blocks for the success of this system is the latency period between the decision to restructure and the realisation of the redundancies on the one hand and the negotiation and set-up of the unit on the other. The months which elapse seem highly damaging for the workers, who enter into a negative dynamic and a feeling of loss and are only able to recapture a positive dynamic with the prospects of profit at a later point. In the case of Hamoir, the preliminary unit allowed the very early taking in hand of the staff and their immediate subscription to a logic of construction of a new business project.

III. Specific transverse themes

III.1. Impact on health

The impact of the restructuring on health was not explicitly taken into account, although one of the objectives of the individual and collective interviews conducted by the New Job unit was to maintain or recover the psychological health of the staff made redundant. These interviews was carried out by psychologists, Trace personnel members who were brought in to work on the problems of stress and anguish linked to the loss of employment and change.

Moreover, it appears that the rapid set-up of a preliminary employment unit allowed all the workers to handle this difficult period with fewer problems as they could immediately discuss it collectively and start putting together a new professional project. It seems that, in this respect, the earliness of the assistance offered for the professional retraining of personnel is a decisive factor in the success of outplacement initiatives. In the case of Nestlé, the outplacement service started when the personnel were still in employment, thereby avoiding or reducing the trauma or shock linked to the jobseeker's status. The social and individual dynamic linked to employment is not interrupted, which seems to have a stimulating effect on the search for a new job.

III.2. Organisational impact

It seems that the restructuring and the takeover of the activity have had three types of impact on the organisation of the activity and the work within the Hamoir site.

[24] The Liège region is currently experiencing a certain number of restructuring operations of this type, most notably within the Coca-Cola and Inbev groups, to mention but one or two.

Previously, the company’s management was restricted by a whole series of rules imposed by Nestlé on all of its plants in the interests of uniformity. Since the activity’s takeover, the director has modified several of these in order to adapt them to the realities on the ground and to the new operational context. For example, whereas the site previously could not choose its suppliers, who were imposed on it by Nestlé according to their capacity to supply several group plants, Belourthe can now choose the supplier offering the best value for money. This latitude is allowing the new business to make gains in terms of productivity and profitability which were not available to the old structure.

The commercial and financial issues facing the new company have also required a change in the organisation of work. There are fewer members of staff and so they are obliged to be more versatile and flexible. Their job description have been reviewed and their duties widened. The pace of work has also intensified to compensate for the workforce deficiency. Furthermore, the new owner was unable to maintain all of the skills required for the activity internally, some highly specialised staff having opted to leave their job, thereby depriving the new company of expertise transferable to newcomers or younger workers. These latter groups now say they are having to “muddle through” to keep production going in optimum fashion.

Finally, the management tier is a lot lighter than previously. Whereas the plant numbered nine executives in 2002, it now employs only two: the plant director and the production director. This lightening of the hierarchy requires autonomy and initiative on the part of the workers, who have not been used to this in the past and sometimes find themselves resourceless when faced by decision or choices to be taken. Similarly, the site no longer has a human resources department, a service now provided by the production director.

III.3. Public service policies to aid employment

FOREM (the Walloon Region employment and training public service) had very little involvement in the Hamoir site restructuring. When the announcement was made about the company’s closure, the Nestlé management made contact with the public service to obtain information on the conditions for the creation of a retraining unit. Normally, these units are created after the restructuring at the request of the union organisations and are funded by the public service. When Nestlé informed them of their willingness to fund the retraining unit themselves in order to be able, amongst other things (Cfr. Supra), to immediately launch a preliminary unit, FOREM decided to withdraw from the process. The FOREM managers basically took the view that the financial and human resources made available to the unit would provide more favourable conditions for the laid-off workers than a traditional retraining unit. The job search services of the local FOREM office did, however, collaborate on the New Job unit activity by providing information on vacant positions and training opportunities.

III.4. The region

Right from when it first launched its Hamoir site, Nestlé always had a positive and considerable social impact on the village. This influence was first of all indirect, since it employed numerous local workers and these consequently had the purchasing power to boost and help develop local commerce. Its influence was also direct, as the company used to sponsor the village football club and the local newspaper, provided free milk to local primary schools and, until 2005, paid the municipal engine power tax.

During the restructuring, the region was involved very little, in contrast to the local media, which gave the restructuring wide coverage. At municipal level, two actions were undertaken to support the plant. When it was learned, at the start of 2005, that the site was in difficulty, the college of aldermen decided to bring forward the scrapping of the engine power tax planned for 2006 by one year. Moreover, on the announcement of the site's closure, the village burghermeister organised a meeting between various regional political personalities and Nestlé's management to inform the different contacts and parties and plan possible solutions.

Furthermore, the local branch of the socialist party indicated in the media that "the SP would mobilise its contacts at all levels of authority to help the Nestlé staff and to prevent such a scenario in the future." It now appears difficult to us to assess the real impact of this type of declaration. The (socialist) Minister for the Economy of the Walloon Region did meet with the new site owner to envisage with him what regional aid might be accessible, but it strikes us as a normal intervention when such a big company is closing its doors.

A posteriori, we feel it is difficult to control the possible negative effect of the plant's restructuring on the region because the village's economic situation had been deteriorating for several years, since well before the start of the plant restructuring process.

Lastly, it should be noted that certain witnesses have indicated to us that the generosity of the Nestlé in compensating its personnel was going to have a negative impact on the region as the level of compensation obtained would set a precedent and risk also being claimed in the restructuring of companies with less financial resources.

III.5. Trade unions

The action of the trade unions has been described above and essentially took three directions: the firm and almost unconditional support of the takeover project, support for the maintenance of activity and the preservation of the production tool during the negotiations and the support of the workers within the New Job unit.

However, as already explained, one of the Union's representatives adopted an opposite position.

IV. Case analysis: facilitating and blocking factors

In order to derive the most benefit from this case, it may be worth looking at it from the angle of elements which, on the one hand, aided its successful conclusion and those which, in contrast, acted as significant obstacles which could have threatened its success.

IV.1. Facilitating factors

Apart from the conditions described above as having favoured the success of the MB and which are covered in the diagram below, other factors came into play to facilitate a restructuring process of which the outcome is regarded by most parties as relatively satisfactory. These are detailed below.

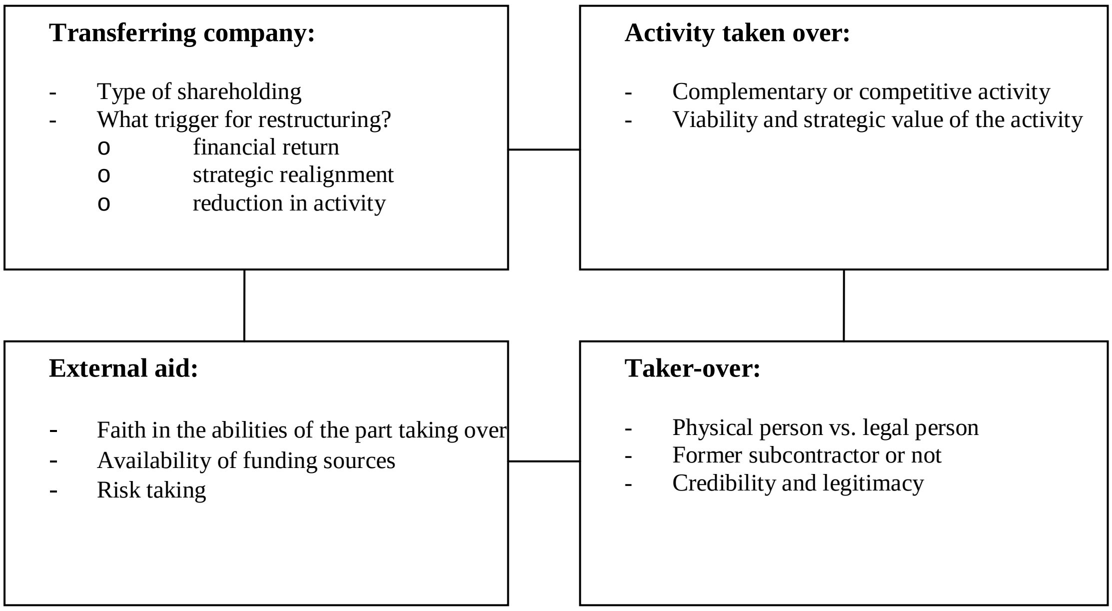

Figure 1: The success factors for an MB

IV.1.1. <u>Nestlé's financial resources</u>

It seems certain that the primary facilitating factor was the significance of the resources committed by Nestlé for the restructuring of the Hamoir site. These resources ensured that the workers had a comfortable amount of capital to allow them the time to find a stable work situation, permitted the rapid set-up of a retraining unit with the possibility of attending private training courses, which were directly accessible despite being costly. This budget allow made it possible to propose initiatives which were apparently effective in terms of finding a new job. Finally, the group's secure financial situation facilitated the takeover of the activity through the sale of the site at an advantageous price with special payment facilities and the granting of incentives for the workers to stay on with the new company.

IV.1.2. <u>The presence of committed local management</u>

The personality of the director seems to have aided the maintaining of the activity. His readiness to take on such a challenge can certainly be explained in various ways. First of all, his experience at the helm of an SME in the same sector has given him the qualities required for the management of such a business. Next, his involvement with the sector's federation affords him a good overview of his market and the constraints peculiar to it. Finally, the fact that he is the first director of the site to come from the region also seems to have played a role, as in contrast to the former expatriate directors, his attachment to the region has given him the desire since 2002 to keep the Nestlé production tool competitive and then, during the restructuring period, to help conserve the region's (remaining) industrial fabric while seeking a solution for the maintenance of the activity on the site. This concern for the region was also shared by the production director, who told us that he had a sentimental attachment to the plant, where he has worked since the age of 16 and which has a significant influence on local employment.

During the search for a solution, the set-up of a task force comprising two taker-overs and two consultants enabled a persuasive business plan to be put together for presentation to the Nestlé Group and to the funding bodies and thereby offered favourable conditions for the effective development of the MB.

IV.1.3. Willing workers

The staff of Nestlé's Hamoir site came through this highly unsettling event with a great deal of composure. As already mentioned, they could have undertaken actions aimed at destroying the production tool and ruined any chance of maintaining the activity. On the contrary, they kept their dignity and were proud of maintaining high working quality standard right until the end.

A large number of them also wished to continue the adventure and take on the challenge under the Belourthe banner. Without them, there would have been no business plan, no continuation of the activity and no positive prospects.

IV.1.4. The set-up of the New Job Unit

Nestlé had the financial resources to fund a seemingly very effective private support unit for staff. The speed of its set-up, the wide choice of training rapidly accessible to its beneficiaries, plus the financial incentives to take part in it and to find new work quickly were certainly important success factors.

Several parties spoken with also adjudge that the inclusion of temporary work in the granting of the stimulation bonus was a facilitating factor as it encouraged certain beneficiaries to accept temporary posts in spite of much less favourable employment conditions.

IV.2. Blocking factors

In our view, there have been few blocking factors in this story.

IV.2.1. Non-competition clauses

The non-competition clauses, which were essential conditions for the realisation of the MB, could have rendered the taker-overs' business plan null and void. Fortunately, the production tool's technical conversion possibilities allowed the new company to offer new agri-foodstuff ingredients wanted by the market.

IV.2.2. The group's limited aid

In our interviews with the various parties involved in keeping the site going, we uncovered a point of bitterness linked to regret at not having received concrete and active support from the Nestlé Group during the constitution of the business plan. Although the group's words encouraged such an initiative, it offered neither financial nor human resources to support the development of the business plan.

IV.2.3. The rules for awarding bonuses

The taker-overs' business plan was unable to rely on the granting of public subsidies reserved for business creation. In fact, the site taker-over bemoans certain legal provisions linked to the granting of public aid. Whereas maintaining activity allowed the preservation of the jobs of 34 people at salaries 15% to 20% greater than the norm for the sector, the Walloon Region was not in a position to grant it job creation bonuses as there had been no severance of employment contract.

Moreover, the geographical delimitation of the different levels of investment aid places Nestlé in an area where aid is limited to a maximum of 6%, whereas other factories, often in a more favourable economic situation, can obtain funding of up to 20%. This situation is all the more problematic for the fact that investment expenditure is an essential condition for making the site's activity permanent.

IV.2.4. The guarantee of a minimum number of workers taken on

As the site's new owner indicated to us, the takeover almost failed due to the obligation of a minimum number of staff be rehired. This number, set down by the future owner in its business plan, has been subsequently taken up by Nestlé to ensure the success of the management buy out. In the autumn of 2005, the future new owner was worried because the redundancy packages were so good that the majority of workers said they wanted to benefit from them rather than stay in employment. Fortunately, the granting incentives fixed by Nestlé in the social plan to support the staff wishing to remain in place allowed the company director to reach this number.