



HS MCC CASE 2019

ENO GROUP

Eno Group (the "**Group**" or "**Eno Group**") is a multinational technology and engineering group that specializes in B-to-B customers. It owns and develops its businesses primarily in Northern Europe, but currently seeks also to expand into certain selected growing markets. One of the key objectives of the Group is to expand and internationalize medium-sized companies. The Group decides on the role of each of its subsidiaries as part of the whole and, if required, it is also ready to make structural changes: to acquire, divest and list businesses. The Group's turnover in 2018 has been approximately EUR 9.2 billion and it has employed some 18,000 people in 10 countries. Eno Finland PLC, headquartered in Helsinki, is the parent company of the Group ("**Eno Finland PLC**"). The number of personnel in the parent company is around 700. As per Section 4 of the Collective Agreements Act, the Eno Group applies the Collective Agreement between Technology Industries of Finland and Industrial Union¹ in all of its employment relationships unless otherwise specified.

Decision-making in the Group is generally organized in the following manner: The board of directors of Eno Finland PLC (the "**Board of Directors**" or the "**Board**") decides on all major issues for the entire Group but, as Eno Finland PLC is a large international entity, its CEO Kiire ("**CEO Kiire**" or "**CEO**") also has extensive powers and could decide, for instance, on closures of factories, minor acquisitions or mergers within the Group, in accordance with the Group's administrative instructions. Every subsidiary company also has its own managing director (each a "**Managing Director**", collectively "**Managing Directors**"), who is responsible for

¹ Annex #1.

the executive management of the company in accordance with the instructions and orders given by the Board of Directors. The Managing Directors must see to it that the accounts of their subsidiary company comply with law and that the financial affairs of subsidiaries have been arranged in a reliable manner. The Managing Directors may undertake measures that are unusual or extensive in view of the scope and nature of the activities of the subsidiary company only if so authorized by the Board of Directors. Furthermore, as required by law, all major decisions of any instance of a listed company such as Eno Finland PLC must be publicly notified, and the notification procedure requires that the company's Board of Directors has considered and approved the measures in question (Securities Markets Act). In Eno Finland PLC, such notifications are always given with stock exchange releases. As per Group's administrative instructions, the communications director and the Managing Director of the relevant subsidiary are responsible for the compilation of the releases and resolve the contents of the bulletin with the CEO.

The Group also has an executive team consisting of the CEO, Managing Directors, and other executive staff of the Group (the "**Executive Team**"). By definition, it is an advisory forum and has no independent decision-making power. Decisions are always made by the CEO, the Board, or the Managing Directors independently and they are solely responsible for their actions. Nevertheless, the executive team may always be consulted before making any decisions and it can also give an advisory opinion by its own initiative on any decision made in or action taken within the Group. The statements of the Executive Team are not systematically recorded or registered. As stated in every contract between each Executive Team member and the relevant subsidiary of Eno Group, the members of the Executive Team are expected to be reachable at all times but, because of the nature of the forum, attendance in the meetings is not mandatory nor is it controlled in any way.

THE CASE

Eno Finland PLC held its annual general meeting² ("**AGM**") in July 2018. In this AGM, the shareholders were facing a new reality where the Internet of Things ("**IoT**") technology, in which the Group has been strongly investing during the recent years, was evidently becoming the most profitable area of business of the Group. It was well recognized that this path would eventually translate into changes in the Group strategy as licensing and selling IoT technology would become its primary source of income and, therefore, would require significant organizational restructuring in the not-so-distant future. The Board, along with CEO Kiire, had prepared a draft of a so-called "*development plan 2019–2020*", with the purpose to show how the Group could integrate these changes and the new strategy seamlessly. The plan included, *inter alia*, a list of strategic

² Annex #3, AGM Minutes.

innovations and company-level actions that were being considered as strategic alternatives. Among these it was proposed that a new subsidiary, enoIOT, would be established. There was also a list of measures considered necessary by the legal department in order to meet the requirements set out in the Finnish Competitiveness Pact³.

After the AGM, the future of IoT technology within the Group and its subsidiaries was next discussed in a Board meeting on 16 October 2018. The minutes of this meeting stated that the discussion revolved around the necessity of a group-wide restructuring in accordance with the development plan. Some savings would ultimately be needed because of the establishment of the new IoT-focused subsidiary and in order to improve the Group's profitability. At this meeting CEO Kiire was authorized to report on the restructuring measures and to take any further action as per the development plan. According to the minutes, a decision was made that Group-wide co-operation procedures would start on the same day. In this meeting, it was decided that the Managing Directors would be the employers' representatives in the upcoming negotiations. Final decisions on closures of subsidiaries and the necessary redundancies would be concluded only after the co-operation negotiations were completed. Alternatives were also thoroughly speculated already in this meeting. Somehow, a photograph of a single slideshow page presented here leaked into the public and received a little media attention⁴. In accordance with the decision of the Board of Directors, the Eno Finland PLC issued a stock exchange release on 25 October 2018 concerning co-operation negotiations, cutting down production capacity and reducing personnel. According to the press release, all planned personnel reductions required local negotiations administered by the directors of the relevant subsidiaries.

The Executive Team also held a series of meetings in October on what the establishment of enoIOT meant for the organization and how the Managing Directors and other executive staff would be able utilize the intra-organizational services of the new department. Also, because of the timing of these events, questions of how to handle the local co-operation negotiations properly were occasionally discussed in these meetings. The meetings were held twice a week on Wednesdays and Saturdays after regular office hours, between 6 October 2018 and 27 October 2018. Every Managing Director was present in these events among the executive staff of EnoElectronics, Eagle Audio and Summa.

Before the co-operation negotiations began, negotiation proposals were handed to the employees' representatives, shop stewards Anna Aalto (Eagle Audio), Pekka Portti (AKIM) and Eero Kaski (Eno-Varlogic) on 1 November at 12:00, and to the co-operation representative Juha Teerenpeli (EnoElectronics) on 3

³ Competitiveness Pact (*Kilpailukyky sopimus in Finnish*) is a national Collective Agreement negotiated by the Employers and Employees Central Organizations along with the representatives of the elected government. The agreement aimed to enhance the competitiveness of Finnish industries by, for instance, generally limiting wage increases, prolonging working times and cutting holiday bonuses and other employer contributions and salary costs.

⁴ See annex #4: HSNews.fi news article.

November at 10:15. The scope and content of every proposal was the same: 1) integration of the development plan, 2) group-wide restructuring in order to increase efficiency, 3) plans to cease the production of audio and computing equipment and focusing on the production of components, 4) increasing working time as per the Competitiveness Pact, and, 5) plans and necessity of reducing personnel.

The co-operation negotiations took place simultaneously between 8 November 2018 and 18 January 2019. The first round of negotiations on 8 November began at 9:00 in every subsidiary. The second rounds of negotiations were held on 29 November. Before the beginning of third round of negotiations, on 10 December, the negotiation proposals were supplemented with additional information about the financial situation of the Group, including fact that the Board was now considering selling an assembly plant, i.e. a factory jointly used by EnoElectronics and AKIM (the “**Factory**”), which was deemed unprofitable. The employees’ representatives reacted to this information with a request to see the physical calculations in which the considerations were based on. CEO Kiire promised personally to deliver all details as soon as the full profitability-analysis was completed. The information was then handed over during the third round of negotiations on 13 December. In addition to all previously negotiated subjects, the fourth round of negotiations, held on 20 December, dealt with the plan to close the Factory and the Eagle Audio subsidiary, along with the plans to terminate the employment contracts of the relevant personnel. The scope included contracts of 490 employees working at the Factory, all AKIM executive staff, and some supervisor-contracts of EnoElectronics. Also, the contract of CFO and nine high-ranking employees of Eno-VarLogic were subject to termination.

On 21 December 2018, Eno Finland PLC published a stock exchange release on the ongoing co-operation negotiations. The announcement described the closure of the Factory as the Group's intention was to cease production of audio and computing equipment. According to the release, the negotiations had failed to find economically profitable alternative forms of operation. Following the conclusive fifth round of the co-operation negotiations, on 18 January 2019, the final decisions on the personnel reductions and the closing of the factory were made by CEO Kiire on 31 January 2019 under a mandate given by the Board of Directors of Eno Finland PLC in October.

Ever since the negotiations were initiated, the media attention has been significant. The staff members of EnoElectronics and Eno-VarLogic have said in newspaper interviews that they have heard the executives clearly stating that the alternatives presented in the co-operation procedures have not been studied enough, even though it is well known that the options presented by the employee representatives have been carefully calculated and drafted in various working groups with experts and representatives from different departments of the Group, and proposals have been handled weekly to the Executive Team and the CEO. Furthermore, CEO Kiire had visited the Factory on 2 December 2018 and the visit was organized by factory

director Mikaela Gabriel and employee manager Heikki Hopo. According to their report, the CEO's visit was all about a purchase offer the Group had received for the Factory on 29 September 2018 and that the CEO had strictly spoken about the closure of the factory. On 9 December 2018, Aarne Oikkari, who is the Managing Director of Summa, had given a couple of TV and radio interviews as well as a press briefing on the negotiations with a few other members of the Executive Team of the Group. In these interviews they spoke about the closure of certain subsidiaries and the cessation of assembly lines, but the option of using factories and machines for other purposes was also raised occasionally.

On behalf of the unionized employees whose contracts have been terminated, the Industrial Union ("IU") is now taking legal action against the Technology Industries of Finland ("TIF"), of which all Eno Group subsidiaries are members, in the Labour Court.

Claims

The IU seeks the Labour Court to:

1. confirm that relevant Eno Group subsidiaries, i.e. AKIM, EnoElectronics, Eno-VarLogic and Eagle Audio have violated the provisions of the Collective Agreement in force regarding co-operation obligations and the duty to negotiate
2. oblige the relevant employers to pay the dismissed workers a sum of EUR 30,000 for each worker as per Articles of the Collective Agreement in force
3. confirm (as the correct interpretation of the Collective Agreement in force) that participation in the Executive Team meetings should be counted as working time for all participants
4. oblige the employers to reimburse the IU's litigation expenses of EUR 10,200 with interest one month after the date of the Labour Court judgement.

On 1.1.2019, Eno Finland PLC's active subsidiaries in Finland were the following

Summa

Summa is an electronic equipment producing company focusing on manufacturing of large-scale telecommunications infrastructures, technology development, and technology licensing. The company has long been one of the leading developers of IoT technology on industrial applications in Europe. The company's IoT tech has long been licensed, tested and implemented in both professional and consumer products worldwide with remarkable success. The company is also a notable contributor to the mobile telephony industry, having assisted in the development of the upcoming 5G technology. Summa has approximately 5000 employees.

eno-VarLogic

Eno-VarLogic is a software development and engineering company based in Espoo. The company was founded in 1990 as Varkkila Logic by a few Helsinki University of Technology students. It was acquired by Eno Finland PLC in 2001 and is best known for its customized systems integration solutions. A prime example of the company's know-how is the class-leading Enterprise Resource Planning ("ERP") software EnoSuite that is currently being managed and developed in EnoSoft, which is subsidiary of Eno-VarLogic. The company has approximately 500 employees out of which most are software engineers.

*eno*Pro

The people of EnoPro are professional advisors, consultants and technical executers of the digital world. EnoPro is the number one choice of any business when seeking for optimized processes and better insight of how to manage your digital solutions. EnoPro is one of the leading providers of customized ERP software solutions powered by the proven cloud-based EnoSuite by EnoSoft. EnoPro has a little over 500 experts out of which 120 have their regular working place in Finland.

*eno*Electronics

ENOElectronics is both the coordinating unit for consumer electronics and computing technology as it is the prime manufacturer of computing electronics. In pure numbers, most of the sales and business negotiations of the entire Group are handled through EnoElectronics. Today, EnoElectronics has over 600 employees.

AKIM

AKIM, founded as Anjalankoski Industrial Mechanics, is the primary manufacturer of electronic components used by the Group. The company has approximately 300 employees and 10 executives. AKIM's solid polymer capacitors have gained worldwide reputation as being rivalled in quality only by traditional Japanese-made capacitors, but being significantly more cost-friendly.



Manufacturer of high-end amplifiers, loudspeakers, microphones and other Hi-Fi audio equipment. Eagle Audio is the only subsidiary of Eno Group that is not fully owned by Eno Finland PLC or one of its subsidiaries. The Group is, however, the majority shareholder with approximately 51% of the total shares. The Eagle Audio company was taken over by Eno Group in 1999 and currently employs 90 people in marketing and product design and approximately 150 in the Eno-owned factories where its products are assembled.

enoIOT

enoIOT was established as a specialized subsidiary for inter-organizational purposes. It is responsible of coordinating the entire Group's IoT-strategy. It is estimated that the new subsidiary will employ approximately 80 people in 2019 and 150 in 2020. Most of the employees are former employees of other subsidiaries, mainly summa, EnoElectronics and Eagle Audio.