

BEYOND THE BLOCKADE

Turning Co-Determination
into an Execution Engine

KRIYA
PARTNERS

Execution-Led Value Creation

Most European industrial turnarounds do not fail on strategy. They fail on sequencing. The financial model is sound, the headcount targets are right, the board is aligned – and then the process stalls for six months in co-determination (“*Mitbestimmung*”). This is not bad luck. It is a predictable failure with a known solution.

I. The Implementation Deadlock

In Europe, a turnaround does not fail in Excel. It fails in co-determination.

Execution excellence requires recognizing that the Works Council has a legal mandate to protect the workforce. To move from "Ambition" to "Realized EBITDA," management must secure the social license to operate.

At Kriya, we embed directly into transformation governance. Our role is not advisory; it is execution sequencing – aligning economic targets, legal pathways, and implementation milestones so that negotiated measures translate into EBITDA and cash.

II. Beyond Headcount: The Universal Methodology

A common misconception is that intense Works Council involvement

is only necessary when "slashing" headcount. Our experience shows the opposite. Even in transformations where headcount remains stable—such as plant modernizations, automation rollouts, or the introduction of new shift models—the methodology remains the same.

In Europe, the "Return on Investment" is inseparable from the "Return on Trust." You cannot force a 25% cost reduction through a legal battle; you execute it through a negotiated, transparent transition where social integrity is treated as a competitive advantage.

Any change to the "way we work" creates friction. Working *with* the council rather than *around* them ensures that new technologies or processes are actually adopted on the shop floor, rather than quietly resisted by a disengaged workforce.

III. Creating the "Case for Action"

The most dangerous move in a turnaround is the "Secret Plan" designed in an ivory tower. In a co-determined environment, silence creates a vacuum filled by fear and rumors.

- **Radical Transparency:** Management must explain the economic gravity—liquidity constraints, chronic underutilization, or a 3-year look-ahead showing structural erosion—using the same unvarnished data provided to the Board.
- **The "No-illusions Narrative":** You have to be blunt with every employee about **why** the business needs this and **why now**. Credibility is built when the shop floor understands that the status quo is the greatest risk to their long-term job security.

In some situations, financing discussions run in parallel. Group companies are often supported by the parent, while standalone

businesses may require lender involvement. This sits outside the core execution program, but operational credibility remains decisive.

IV. Involve Early, Negotiate Less

If you wait until the plan is "perfect" to involve the Works Council, their only move is to block. If you involve them while the measures are still being shaped, they become stakeholders.

- **Involvement in Measure Definition:** Bring the council in during the **measure definition phase**. They often know where the "hidden" waste and complexity lie better than any external observer.
- **Early Buy-In:** When the council understands the logic behind a measure, the negotiation shifts from "whether" to "how," significantly accelerating the timeline to realized P&L and cash results.

V. The Execution Sequence that Protects EBITDA

A successful turnaround follows a disciplined legal and operational sequence. It isn't a single event, but a series of committed milestones. The sequencing is as critical as the measures themselves. Mis-

sequencing delays EBITDA realization by months.

1. The "*Grundlagenvereinbarung*" (Foundational Agreement)

Before diving into granular legalities, a **Foundational Agreement** is created. Signed by both the Board and the Works Council, this is the "Charter of Commitment" that sets the guardrails.

Case snapshot

In a large-scale industrial restructuring program, final Works Council agreement was reached within four months – while non-co-determination measures were already running from day one.

This document is where we define the negotiation guardrails—the professional quid pro quo that aligns incentives:

- **Performance-Linked Security:** Document that if specific cost-saving milestones are met ahead of schedule, the remaining planned headcount (HC) reductions will be suspended.
- **The Turnaround Bonus:** Agree on a "Success Payout." If the company reaches the EBITDA and Cash targets defined in the plan, a specific bonus is triggered for the remaining workforce.
- **The "*Standort Zielbilder*" (Site Target Pictures):** Attached to the agreement, these high-level blueprints describe the future role of each site and the key measures required to get there.

2. The "*Interessenausgleich*" (IA - Reconciliation of Interests)

This is the critical "What" of the transformation. The IA defines the operational changes: which departments are merged, which lines are moved, and how the "New Baseline" will look. The IA ensures the focus is on **future competitiveness**—modernizing the plant and removing the complexity that erodes margins.

3. The "Sozialplan" (Social Plan)

This is the "How"—mitigating the hardship for those affected. We prioritize instruments like *Transfergesellschaften* (Transfer Companies) and voluntary leaver programs to protect the morale and "execution muscle" of the remaining organization.

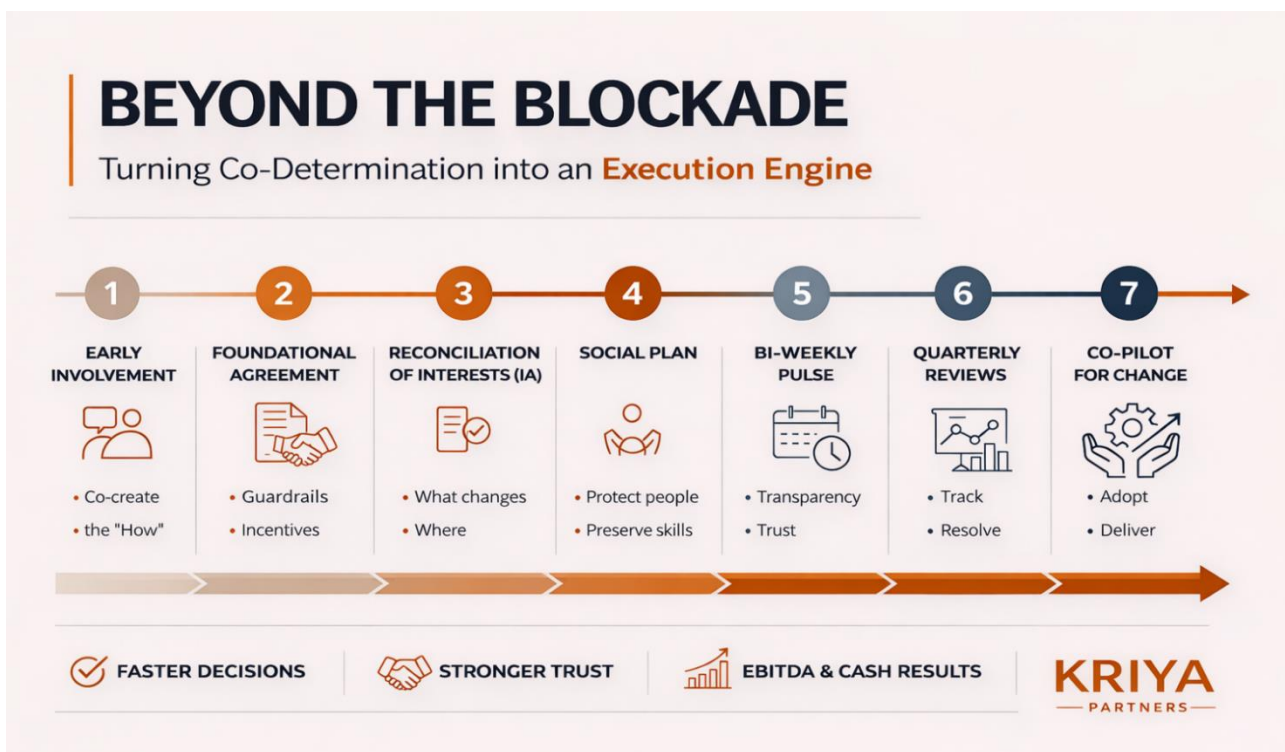
VI. The Governance Rhythm

Transformation is not a "black box" that runs on autopilot. To maintain trust, the communication loop must be relentless.

- The Bi-Weekly Exchange (The Pulse): Every two weeks, the

Transformation Office holds a 1-hour exchange with the Works Council. This isn't a formal negotiation; it's a "look under the hood." Members see exactly what is moving, what is stalled, and—critically—what is *not* happening. This prevents "ivory tower" suspicion and builds trust through consistency.

- Quarterly Implementation Reviews: A formal board-level rhythm to review the degree of implementation. These sessions allow the council to raise execution issues or bottlenecks in real-time.



VII. From Blocker to Co-Pilot

The "North Star" of turnaround management is turning the Works Council into a co-pilot for change. When they are involved throughout, they gain a stake in the success.

The social license to operate is not a soft constraint. It is the hard architecture upon which EBITDA is built. Companies that treat co-determination as a legal obligation to be managed will always be slower, more expensive, and more exposed than those who treat it as an execution lever. The difference is not philosophy. It is sequencing, governance, and the discipline to involve the right stakeholders before the plan is finished.