



Labour market change

**LEGO Group: Relocation from  
Denmark to Hungary and Czechia  
and associated business expansion  
- case study**

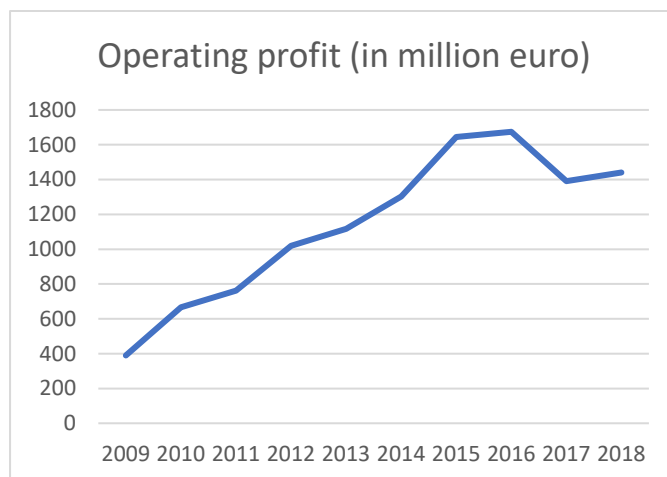
## LEGO Group: Relocation from Denmark to Hungary and Czechia and associated business expansion

This case study was carried out for a European Restructuring Monitor project on transnational restructuring (2019-20).

Report: [ERM report 2020: Restructuring across borders](#)

### Introduction

LEGO A/S, trading as LEGO Ltd is currently (2019) the world's largest manufacturer of toys and has its head office based in Billund, Denmark. The company was established in 1932 and is now represented with business units in 37 countries worldwide. As well as the manufacture of its plastic bricks and toys, the company also operates a number of retail outlets and amusement parks. Following a period of poor performance in the late 1990s/early 2000s, the company returned to profit in 2005 and growth was particularly strong between 2011 and 2016 (see figure below).



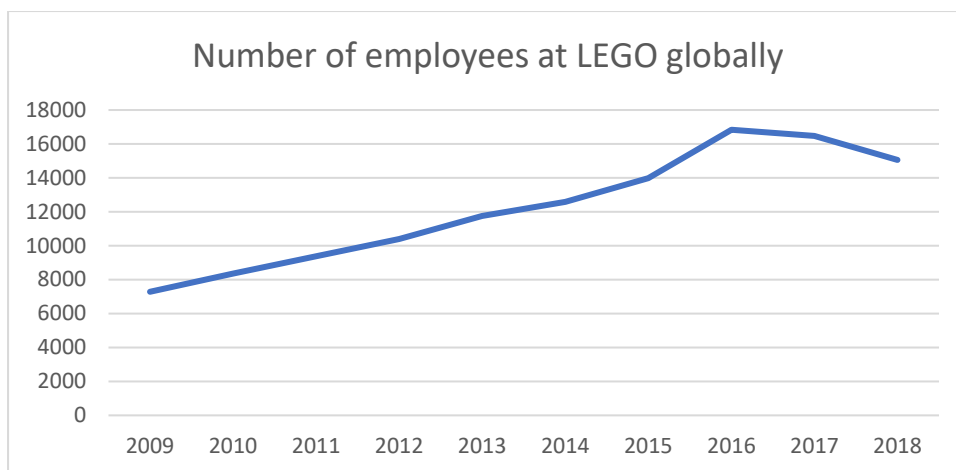
Source: Statistica

### Employment trends at LEGO

The company's economic fortunes are also reflected in employment trends with a steady increase in jobs figures between 2009 and 2016 followed by a subsequent dip. Global employment numbers more than doubled between 2009 and 2016 from around 7,300 to close to 17,000. By 2018, this figure had declined to around 15,000 (see figure below).

However, the overall number serves to disguise ongoing global 'internal' restructuring over the years. As part of global expansion, within Europe, internal restructuring has seen part of a production and packaging move to Central and Eastern Europe (Czechia and Hungary in particular) with a new logistics hub also being established in Jirny near Prague with the creation of around 600 jobs.

At present, moulding of LEGO products takes place in Billund, Denmark, Nyíregyháza in Hungary, Monterrey in Mexico and Jiaxing in China. Brick decoration and packaging is done in Denmark, Hungary, Mexico and Kladno in the Czech Republic.



Source: Statistica

Since the early 2000s and prior to – as well as since - the restructuring events which are the subject matter of this case study (offshoring from Denmark to Czechia and Hungary between 2013-2015), the ERM recorded a number of job reductions (primarily, but not exclusively in Denmark), as well as job expansions in Central and Eastern Europe, which are briefly chronicled in the table below.

Year	Country of job losses	Country of job gains	Number of jobs affected	Rationale
2003	Denmark	n/a	500	Reduction in production due to sales slow down
2005	Germany	n/a	126	Closure of site in Hohenestedt
2006/2007	Denmark and Switzerland	Hungary/Czechia	700-900	Relocation of elements of production and packaging
2013-2015	Denmark	Hungary/Czechia	50-75	Relocation of decoration, assembly and packaging operations
2017	Global		Estimated 1,400 worldwide of which 600 in Denmark	Internal restructuring resulting from 5% decline in sales and 6% reduction in turnover in early months of 2017

Source: ERM

### Offshoring from Denmark to Hungary and Czechia 2013-2015

Prior to the decision to relocate part of the decoration, assembly and packaging operations from Denmark to Hungary and Czechia in 2013, 3,872 individuals worked at the company's site in Billund. This followed a period of expansion since 2008. Around 380 redundancies were announced in March 2013, but by the end of the restructuring period in 2015, only 50-75 workers had received direct dismissal notices. The remainder of the affected workers were either in new jobs or had left by national attrition. By mid-2015, the Billund site still employed 3,800 workers.

The expansion of employment concurrently taking place in Kladno (Czechia) and Nyíregyháza (Hungary) is partly, but not solely, linked to relocation from the company's Danish site.

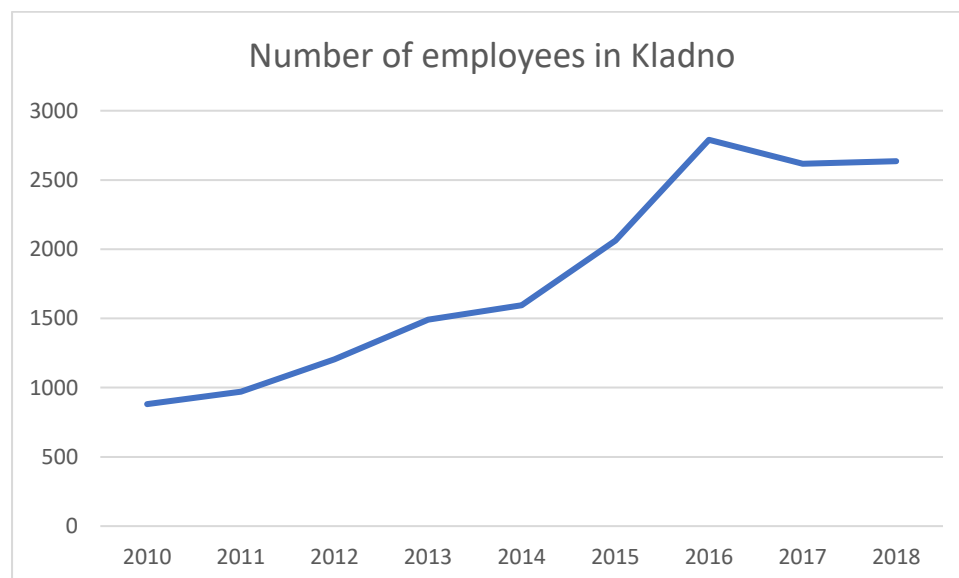
The decision to carry out the restructuring process was taken by the executive management in Billund. The rationale provided for the relocation was to move some production closer to new markets in middle and southern Europe and reduce transportation costs and times from Denmark to these markets through the use and augmentation of existing sites and/or workforces. Another reason was enhanced competitiveness, which is arguably linked to production costs. It is considered that these goals were fully achieved by the relocations.

Local management in Billund, Kladno and Nyíregyháza were involved in the implementation of the decision. In accordance with the provisions of the company's cooperation agreement (see below), negotiations on the implementation of the restructuring (particularly at the 'departure' site in Billund) took place in the Cooperation Committee at LEGO.

As part of the offshoring process, workers and employee representatives from Denmark visited the plants in Czechia and Hungary to receive information on local conditions and to help to train staff.

#### Expansion at Kladno, Czechia

At the time of the expansion, LEGO employed around 1,600 workers in Czechia (in two legal entities – the production plant and the distribution centre together with the sales representatives. In 2012, the production plant employed around 1,205 workers. By July 2015, this figure had increased to 2,062 workers. Since then, in line with the global reduction in sales and employment, there has been a reduction of staff at the plant (see figure below).



*Source: Interviews carried out for this case study, management representative*

It is difficult to ascertain how much of this expansion was directly linked to the offshoring from Denmark, since during the same period, the company enjoyed extensive economic growth (associated with a 20% increase in production). This further contributed to the expansion of the plant and the creation of additional jobs over and above those relocated from Billund. Three types of professions were primarily involved in the expansion: machine operators, warehouse staff and mechanics. Workers in these areas mainly possess elementary and secondary vocational or mainstream education. The average age of newly recruited workers is between 25-45 years.

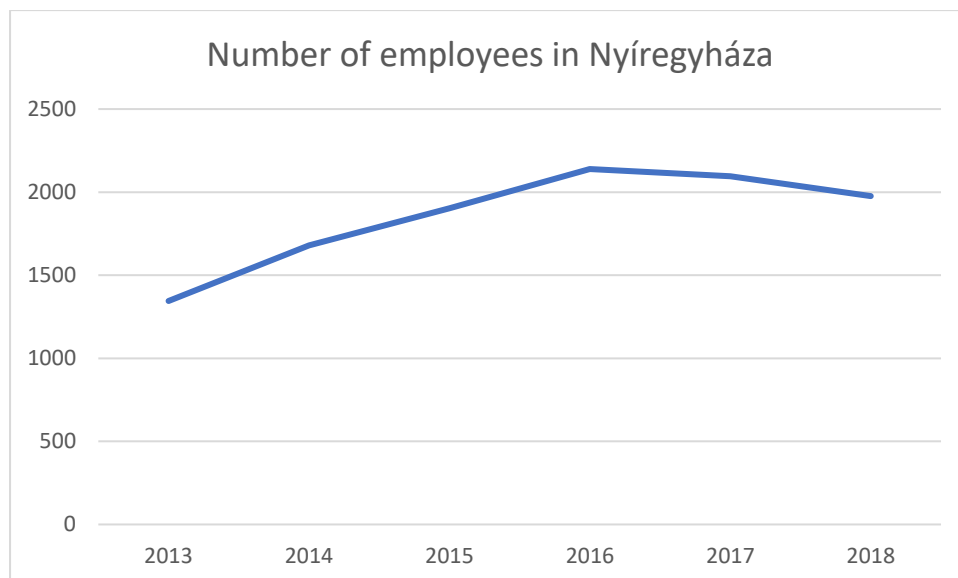
The company operates a global corporate culture associated with global processes associated to bonuses, annual performance assessments, annual wage increase and the establishment of local works councils. It also adheres to a global ethics code. Specific local terms and conditions at the

plant are based on Czech legislation, including working hours, holiday entitlements, access to maternity and parental leave. Other local benefits are negotiated following consultation with the local works council. All relevant training is provided on site (not by workers from Denmark).

LEGO is now one of the largest employers in the region.

#### Establishment of a new Hungarian site at Nyíregyháza

Significant expansion also took place in Hungary, concurrent with the relocation of some production processes from Billund. This was associated with the construction of a new production site in Nyíregyháza with an investment of around 200 million euro. The new site accommodated 1,250 workers from a different site (which the company had taken over from Flextronics) and an addition 250 workers, partly as a result of the relocation of activities from Denmark. In addition, it was envisaged that the workforce would increase to around 4,000 over a number of years. Due to the expansion in business in the region, management at the Hungarian site viewed this process not as a delocalisation of jobs from Denmark, but as part of the global development strategy of the company. As the figure below demonstrates, due to the decline in sales experienced by the company from 2016 onwards, the employment expansion to date did eventually not reach the 4,000 mark initially envisaged.



Source: Statistica

Training for the workers was provided at several levels. Two units of LEGO's global Learning Centres are located in Nyíregyháza. Local trainers are trained by trainers selected at global level. The delivery of training is considered to be organised at the global levels as part of an overall strategy, rather than being training delivered as a result of a departure from one country and arrival in another.

Both in Kladno and Nyíregyháza LEGO's business expansion was considered to be highly beneficial, with knock on effects on the local economy, although a supply chain effect was limited, since LEGO does not have a large supply chain. In both cases, it was argued by management that no local incentives were offered from the relocation, although in Hungary it was perceived to be helpful that a project to complete major motorway links close to the site were completed around the same time, making the location more logistically attractive. Furthermore, some legal advice was provided to deal with local planning regulations and land ownership issues in relation to the greenfield site at Nyíregyháza.

## Employee representation at LEGO

### *Transnational interest representation*

An EWC was established in LEGO as early as 1995. The agreement was based on Article 13 of the 1994 EWC Directive (Directive 94/95 of 22 September 1994). The EWC was composed of two representatives from Denmark and one from the other 14 EU Member States where the company had operations, as well as from Norway and Switzerland. However, by 2002 many of the initial employee representatives from various countries had left the company and replacements had not been appointed. In addition, meetings of the EWC were not being held in line with frequencies set out in the agreement. At this point, the employee representatives at LEGO in Billund, Denmark, suggested extending the EWC to become a Global Works Council (GWC) including representatives of the LEGO workforce in the Americas, Asia and Australia. The subsequently established GWC built on the statutes of article 13 of the EWC Directive. The GWC remains in existence today. In cases of restructuring, the individual representatives of every country in the GWC have to be informed in detail about the intended changes. With regards to the restructuring processes reported in this case study, the GWC was informed and representatives from all affected sites are present on the GWC. However, following this initial information stage to the GWC, information and consultation at the company takes place in the local Cooperation Committee (in Denmark) and in the local Works Councils (in other countries where they are established – including in Hungary and Czechia).

### *Employee representation at LEGO in Denmark*

In Denmark, a Cooperation Committee is set up at company level in accordance with the so-called Cooperation Agreement, which was first signed in 1947 by the peak level social partners in the private sector in Denmark. The last revision of this agreement took place in 2006. The Cooperation Committee has an equal number of representatives from the employer and employee side. There is a requirement to discuss any plans for restructuring in the Cooperation Committee.

At the Billund site, the union representing the majority of employees affected by the redundancy was the United Federation of Danish Workers (3F). In Denmark, the employee representatives represent both the local union and the employees at the company. In the case of this restructuring, the Joint Employee Representative (representing workers in all the different departments of LEGO in Billund) is a member of 3F as well as being represented on the Cooperation Committee and the GWC.

### *Employee representation at LEGO in Kladno*

A trade union was established at LEGO in Czechia as recently as 2018 and was therefore not in place at the time of the restructuring processes covered in this case study. A local works council has been in place since 2013. A representative of the plant also sits on the GWC.

### *Employee representation at LEGO in Nyíregyháza*

The trade union Vasas has a local branch at the site in Nyíregyháza. Vasas is traditionally a metal workers' union but continues to be active there as many of the workers previously worked at Flextronics, which was in the metals and electronics business. At the time of the restructuring, the site had one representative on the GWC and now has two. A local works council exists, the HR management is considered to have played a role in the establishment of this level of employee representation.

### *Consultation process linked to the offshoring of jobs to Hungary and Czechia*

All management and worker representatives consulted for this case study in all affected countries considered that the GWC was informed in good time (at the time of the press release) about the planned restructuring and received sufficient information. While the move was obviously beneficial

for the sites in Kladno and Nyíregyháza, Danish representatives considered that while the decision was regrettable, it was understandable from a business perspective.

Following the provision of information to the GWC, consultation and negotiation on the proposed job relocation and its implementation moved to the cooperation committee established at the Billund site, with emphasis being placed on measures to mitigate the effects of the announced 386 job losses. A maximum of three weeks were set aside for discussion on these matters within the cooperation committee. This was also the case in relation to this restructuring process. Collaboration in this regard was considered to be good between the management and workers based on an underlying understanding that the decision to carry out the relocation itself cannot be changed, but redeployment, supporting and compensation measures can be agreed as part of the negotiation process. In this process, it is also established how many of the affected employees will in any case leave as a result of natural attrition or voluntary redundancies. The package of measures developed in this case included a number of elements:

- Redeployment of workers to other departments in the company – this was possible for 116 workers, many of whom moved to jobs in the moulded plastics foundry which was retained in Billund;
- Further training and education measures;
- Collaboration with the local job centres and municipalities around the site with the aim of assisting workers to find other jobs in the region;
- Organisation of a workshops with the aim of providing assistance with job search and inviting other local employers to encourage them to recruit redundant workers from the Billund plant. This was done with significant input and engagement from the senior director of production and Joint Employee Representative (representing workers from all departments) who used their contacts and experience to mobilise other employers in the area to attend this meeting;
- Development of severance and redundancy pay packages.

LEGO obtained funds from the Industry Competence Development Fund (Industriens Kompetenceudviklingsfund) which is funded through contributions from all employers in Denmark. The funds are earmarked for further training/education of the employees.

Employees who opted for attrition (for instance moving into pension) were offered to stay to the very end of the redundancy round (e.g. until summer 2015) to provide them with a maximum period of wage and pension contribution record.

The efforts undertaken by the company were well received and subsequently other large companies contacted the representatives involved to learn how the restructuring process was managed as it was considered to be an example of good practice.

In Czechia, the main elements of discussion around the restructuring process revolved around ensuring that the promised number of jobs would be created (which did happen) and the practical elements of the transfer of dismantled production machinery from Billund to Kladno and their successful start-up would take place.

The relocation is not considered to have led to any disputes. While worker representatives from Czechia and Hungary argued that there was of course sympathy with affected Danish workers on the human level, it was perceived that the support measures offered to them were extensive and succeeded significantly in reducing the number of dismissals eventually effected (from 386 to around 70 according to employer and employee representatives). A significant share of affected

workers (around 120) found other employment in LEGO, accessed alternative employment with the help of the company or left through national attrition. Between 2015-2016, employment at LEGO in Billund has grown from 3,800 in 2015 to over 4,000 in 2016. In 2019, the company continues to employ over 4,000 workers at its new campus in Billund.