European Works Council

IBM European Works Council (EWC)
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IBM European Works Council (EWC)
Tim Stevens | Chairman
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Dear Mr Stevens,

"Just this once I have elected to pay GDP on IBM's overall performance", IBM CEO Ginni Rometty stated at her ThinkTogether broadcast of January 24th, 2013. This announcement was welcomed throughout Europe, "a slow path, but recovering" as Ginni phrased.

Europe delivered FY 2012 solid profit growth despite difficult market conditions and declining revenue. The election to pay out GDP on our overall performance clearly supported Ginni's belief that engaged IBMers drive the client experience, and that in turn drives our business results. "In that order", she underlined. The EWC fully supports this pledge and the necessity of engaged employees, as also referred to regularly in our opinion.

However, in the last week of January it became clear that seven European countries covered by the EWC Agreement are excluded from IBM's global GDP this year. These countries represent 15% of IBM's workforce in Europe. This news has been a complete surprise and led to disbelief and confusion. Ginni pointed out in her broadcast that GDP "will be lower than it was last year", but she did in no way refer to exceptions or exclusions.

The EWC questions the validity of the current exclusions and the impact on working climate and employee morale. The engagement of **all** IBMers around the world is necessary to become truly essential. The relevance of employee engagement on productivity, job performance and health was recently also confirmed by a study of the Health Enhancement Research Organization (HERO), as published in the Journal of Occupational & Environmental Medicine, January 2013 - Volume 55 - Issue 1 - p 10–18.

The EWC believes that paying GDP is an important contributor to reinforcing employee engagement. Especially in countries where no legally mandated salary increases are paid, GDP has become one of the most important financial elements of people's yearly income.

Encouraging employees and rewarding them with a bonus is a stimulating way to get the best out of them. However, the EWC concludes that the effectiveness of the current GDP methodology is not supporting this objective and can even be counterproductive. This relates primarily to a lack of transparency and direct influence that most of IBM'ers experience. Some observations:

- it is unclear how PTI is calculated and what views and dynamics are behind;
- it is unclear how GDP is measured, with what views and criteria behind;
- it is unclear what formulas are applied and how the 'IBM pool' works;
- it is unclear what parameters of GDP are within the scope of influence of employees;
- it is unclear how GDP objectives are set;
- it is unclear during the year how the GDP payout develops – there is no 'GDP Index' - and what concrete action employees could take;
- it is unclear which rules and criteria of the GDP program are changed during the year, ie. the impact of the workforce rebalancing program in 3Q and 4Q.

There is also a clear correlation with the relevance and added value of the current implementation of the PBC process. By adequately addressing these aspects and applying more transparent and articulate principles, the EWC believes that the adoption and effectiveness of the GDP program will improve. We look forward to having a more extensive discussion and dialogue at the upcoming regular meeting in May.

For this moment, the EWC requests IBM management to revisit the decision to exclude seven European countries from GDP this year, to assure the engagement of all IBMers around the world to become truly essential.

Kind regards on behalf of the European Works Council,

Marc Born
Secretary