

# European Works Council

## ***Statement – Resource Action to address stranded costs impacts three European countries***

“As you know we have taken a number of significant portfolio actions over the last couple of years, which has resulted in some **stranded costs in our business**”, SVP and CFO of IBM Corporation Jim Kavanaugh stated at the presentation of IBM’s 4Q and FY 2022 corporate financial results on January 25<sup>th</sup> 2023. “We expect to address these remaining stranded costs early in the year and anticipate a charge of about \$300 million in the first quarter. We would start to see benefits in the second half and pay back by the end of the year”. Stranded costs are costs that remain in the business of a company after a sale or divestiture. These costs can relate to employees who were involved in this process, as well as machinery, equipment and/or buildings. In the case of IBM, Kyndryl and Watson Health are the most recent divestitures.

At today’s Extraordinary Meeting, more than a month after Jim Kavanaugh’s announcement, the IBM EWC finally received additional information and details about the size, scope and implications. It was confirmed that **a traditional Resource Action** will be implemented, impacting 3.900 employees in ten countries worldwide, of which three covered under the responsibility of the IBM EWC: **Slovakia, Italy and Spain**. In absolute terms, Slovakia is faced with the highest reduction number. Together with Italy, Slovakia has to downsize its overall staffing levels by approximately 6%, in Spain this percentage is around 2. In Italy and Spain, all business units are in scope, in Slovakia the focus lies especially at the International Delivery Centres. In Italy EO&S (including Q2C) and TLS are impacted most, with reduction percentages of roughly 40 and 20 respectively. The other Support Units in Italy face reductions of 10% to more than 15%, IBM Consulting has to reduce its staff significantly as well. From the Support Functions in Slovakia, our CIO and Finance missions will be impacted most, with reductions of approximately 20% and 10% respectively.

After open and constructive discussion and dialogue and after raising several questions, the IBM EWC membership **remains to have mixed feelings** about the presented business rationale and focus of the current Resource Action, as outlined by IBM senior management. In the European countries in scope, the former Kyndryl footprints and support delivered from International Delivery Centres, are said to be more robust and attached in size and proportion to IBM’s recent divestitures than elsewhere around Europe. However, the EWC membership believes that IBM’s description of ‘specific local circumstances’ is overall quite generic and thereby applicable to many more European countries. IBM senior management recognised that the specific circumstances in Slovakia, Italy and Spain are indeed not always unique, but that urgency and speed to rebalance the business locally differ significantly from most other European countries. In those other countries, IBM senior management said that local optimisations would be handled in a more ‘Business as Usual’ mode, focused on internal redeployment.

As before, the IBM EWC stated that internal redeployment, based on **IBM’s Internal Mobility Framework**, is regarded as a positive ‘Business as Usual’ approach. Unfortunately, the Framework does not always offer suitable and sustainable job alternatives inside the company for all colleagues in scope. In such cases, funding is required to offer tailor-made solutions. This applies not only to TLS, but still today especially to Support Units such as EO&S, Q2C, Marketing & Communications and Human Resources. The membership requested IBM senior management to actively support and approve such local budget requests.

The EWC membership is surprised that Italy and Spain have to cut jobs despite their excellent financial results over the past quarters, as highlighted by IBM Corporation. IBM senior management did only provide high level information about **scoping criteria, the specific approach and solutioning of the reduction target and the applicable timelines**, as they state that this is country specific and topic for further discussion locally. The IBM EWC understands that local implementations are guided by local law and practice, however, at

European level one consistent and uniform approach for all European countries in scope of this Resource Action should be discussed, outlined and agreed to ensure that IBM-employees all over the continent are treated fairly and equally, according to the same rules and principles. The EWC membership therefore **requests IBM senior management** to ensure that:

- first and foremost, subcontractor replacement is advertised and applied;
- scoping criteria are transparent and timely agreed and communicated, including a fair objection process and period;
- employees are made aware of the 'hot' and strategic skills, job roles and job families and to actively engage them in re- and up-skilling programs;
- cross LoB job opportunities are pro-actively facilitated and supported;
- innovative and constructive approaches are developed and offered, such as paid Leave of Absence, paid sabbaticals and Bridge-to-Retirement programs;
- so called 'domino solutions' are actively promoted and supported;
- only voluntary programs and generous packages are offered, to allow IBMers to leave the company in a mutually agreed and good spirit;
- outplacement support is offered to all employees in scope on acceptance of an offer;
- IBMers leave as ambassadors.

Based on the corporate announcement, the IBM EWC concludes that the company wants this Resource Action to be **implemented in this first quarter**, which practically means that impacted employees only have a few weeks to make up their minds. IBM senior management explained that they have no indication about unfair timelines and that all time required will be given to support the local information and consultation processes in Slovakia, Italy and Spain. The IBM EWC welcomes this assurance, as it believes that financial engineering and US accounting rules should never hinder sustainable solutions, create time constraints or otherwise disadvantage employees being in scope of this Resource Action.

The EWC membership believes that **local information, consultation and negotiation** processes should start as soon as possible to allow employees in scope maximum time to consider their options. Local employee representatives should be urgently informed and involved in negotiating the best solutions possible and local IBM management should be truly open to their input and creativity. IBM senior management confirmed that these local processes will indeed commence shortly. The IBM EWC requests IBM senior management to **continue the dialogue** on the current Resource Action at European level as well, to provide regular status updates and to give additional insight in the business case and rationale.

Finally, the EWC membership regrets that it has not at all been pre-informed or involved in any way since January 25<sup>th</sup> about the anticipated consequences. In fact, **the team had to read in the press** about a global reduction of staff of 3.900 IBM-employees. During its informative meeting on February 8<sup>th</sup>, it became apparent to the members of the IBM EWC Select Committee, that also the senior management team of IBM Europe had not been properly informed at that stage about the impact for Europe. The IBM EWC requests IBM to be more aware and attentive to the side effects of its current approach and to ensure that at future occasions more careful and thoughtful consideration is given to this process and to the alignment and communication with internal stakeholders, to facilitate information and consultation when it still matters and to avoid that all kinds of rumours and speculations start spreading around the organisation, creating unnecessary unrest and negative sentiments amongst European employees.

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