

# European Works Council

## *Unclear if IBM Consulting is differentiator in the market; 95/5 productivity ratio without merit*

The IBM EWC welcomed IBM's European Consulting Leader Dave McCann, who outlined the IBM Consulting strategy focused on Hybrid Cloud, Red Hat Open Shift and AI. It was explained that **the main attribute differentiating IBM Consulting from our competition** is IBM Technology and IBM Consulting combining their strengths under the same organisational umbrella. The respective leadership teams are enhancing and strengthening the connections between the two organisations. Furthermore, IBM Consulting Advantage was introduced as an AI platform which supports all consultants enhancing their capabilities, the platform was positioned as a key asset and new business enabler. Although the overall strategy is clear, the IBM EWC is not convinced that IBM Consulting is sufficiently differentiating from other parties in the market to support our business ambitions. Unfortunately, no data about the European Consulting market and IBM's position versus the competition were shared.

The first features of 'Project Greenstar' have been delivered. **Project Greenstar aims at consolidating numerous tools and applications** that are used at IBM Consulting around the world. With embedded AI capabilities, consultants will be able to deliver proposals of a better quality in a faster manner. Both opportunity owners and employees working in Support Functions will be able to increase their productivity and can dedicate more time to clients and to generating more and better proposals. The membership is very positive about this initiative which is expected to boost IBM Consulting's business growth. In 3Q 2024, the revenue of IBM Consulting in EMEA grew, unfortunately signings and our book-to-bill ratio did not meet expectations. Even though current bench figures are slightly above target, the company should not put any pressure on employees on this bench.

IBM EWC can fully understand and support the company's drive and focus on further improving efficiencies and productivity gains through other actions than Project Greenstar, for example by reducing the use of third-party software or by optimizing our office location footprint. However the membership cannot agree to further reducing the number of indirect roles without clear and actionable plans. Already in 2023, our CEO Arvind Krishna referred in one of his Office Hours broadcasts to **a 95/5 productivity ratio as the standard and benchmark in the IT-industry**. This ratio was practically explained as the required mix of 95% direct versus 5% indirect employees to be optimum productive as an organisation. In the context of the Resource Action in 1Q 2024, 'further boosting productivity' was explicitly mentioned as one of the most critical targets of the restructuring, as well as 'implementing the best ratio of support roles to client facing roles'. The IBM EWC believes this ratio is misleading and confusing.

At its Extraordinary Meeting on February 8, 2024, the IBM EWC requested IBM senior management to provide the source of this ratio and industry benchmark, as well as **clear definitions of direct versus indirect employees**. Furthermore, the membership wanted to better understand at what levels the current productivity ratios at IBM Europe and the rest of the IT-market lie, how and along what timelines IBM plans to bridge possible productivity gaps around Europe and what types of solutions are offered to employees who might be at risk of being declared redundant. Unfortunately, the team had to conclude that it did not receive the clarity and insight it requires to be able to acquaint itself and to perform its own assessment to form a balanced and fact-based position. The membership cannot understand that IBM senior management again at today's meeting simply repeated that for Europe there are no measurable KPIs for indirect staffing levels. In the 3Q 2024 Prepared Remarks, IBM CFO Jim Kavanaugh highlighted that "actions taken in the third quarter helped accelerate our productivity initiatives and that we now believe we can achieve approximately \$3.5 billion in annual run rate savings by the end of 2024, up from \$3 billion".

The team is convinced that these savings must be the result of concrete and measurable actions. To get more clarity, the IBM EWC decided earlier this year to ask Syndex, an experienced and well reputed international consulting firm, to provide expert advice and support. Over the past half year, **Syndex conducted research regarding productivity ratios** in the IT-industry. In short, the three most prominent results are:

- 1) the 95/5 productivity ratio is a global average, which is not recognised as the standard benchmark in the IT-industry in Europe. According to Syndex, European companies across industries typically have between 9% and 25% support staff, with Indian IT companies often having the lowest level of FTE's in the IT Services industry.
- 2) the definitions of direct and indirect are rather vague and differ from company to company. With decision makers usually located in Western countries, the number of corporate support staff, such as PR, Legal, Marketing and Communications, is higher, Syndex reports.
- 3) IBM's cost and expense structure is not comparable to IT Services companies such as TCS, Wipro or Infosys. The level of support functions at Western companies lies **on average at 14%**, people work especially in Customer Services, HR, Finance, Marketing and IT roles.

Based on these findings, **the IBM EWC believes that a 95/5 productivity ratio at IBM is without merit** and repeats its request to IBM senior management to provide comprehensive and tangible information and insight in the specific situation for Europe, including clear definitions, current productivity ratios, indirect roles being at risk, alternative solutions and timelines. The team requires more openness and transparency and wants to be involved.

It is unclear whether and to what extent the **Resource Action in 1Q2024 indeed further boosted productivity**. The IBM EWC observes that the restructuring has had significant impact on the daily workload of employees across teams all over Europe and that there is insufficient critical mass to preserve service levels, with the risk of business delays and significant disruptions of operations that has not been acknowledged and fairly conceded by IBM senior management. The membership also concludes that there was insufficient time during the Resource Action for proper handover of work and for the preservation of skills and experience, which has had negative impact on the wellbeing and stress levels of employees.

According to the IBM EWC, a **Resource Action should only be applied as a last resort** to optimise staffing levels, priority should always be to explore other options first, e.g. internal redeployment, re- and up-skilling and job opportunities in our eco-system. The IBM EWC appreciates and supports Business Driven Mobility (BDM) as a program to stimulate and support internal redeployment. The membership suggests IBM senior management to advertise and promote the existence and possibilities of BDM within IBM more prominently and urges the company to smoothen and actively support the approvals for internal, cross LoB transfers to make optimum use of the organisation's development possibilities. This would also allow employees broadening their experience and reducing uncertainty and stress levels.

IBM senior management informed the IBM EWC about the **Corporate Sustainability Reporting Directive (CSRD)** and the actions that the company is currently taking to comply. The CSRD aims at helping investors, civil society organisations, consumers and other stakeholders to evaluate the sustainability performance of companies, as part of the European Green Deal. The Directive requires companies to start reporting on Corporate Sustainability by 2026 at the latest. The primary topics covered in the CSRD are Environment, Social and Governance (ESG). The IBM EWC focusses especially on the social elements, i.e. secure employment, working time, adequate wages, work-life balance, gender equality and equal pay. The membership was informed that IBM will provide a globally consolidated corporate report, including European information. The IBM EWC expects to be regularly informed and involved on the progress and CSRD findings.