

European Works Council

Urgently help IBMers to cope with high inflation

Despite the war in Ukraine and the 'orderly wind down' of IBM's commercial activities in Russia, IBM EMEA, following good 2Q results, delivered **strong financial performance** in 3Q 2022 and was together with Asia Pacific the best performing geography. These results were driven by Consulting and Infrastructure and generated a significant growth of 16% and a gain of market share in almost all European markets. The IBM EWC welcomes these results and is grateful to and proud of all European colleagues for achieving these results. The FY target of the Corporation is to generate 10 B\$ of free cash flow by the end of 2022.

A direct and visible implication of the war in Ukraine, are the steeply increased prices especially for gasoline, food, electricity and natural gas. Europeans all over the continent have faced **significant and growing inflation** rates. According to Eurostat, the annual inflation around Europe went up to 10,7% in October, further increasing since May and at an all-time high since decades. The membership has observed that inflation negatively impacts the net income and buying power of many European IBMers and their families. More and more European colleagues have turned to the IBM EWC and to their local representatives to ask for advice and support. In many cases they are reluctant to explain and discuss their difficult personal situation, as they feel embarrassed and sometimes ashamed.

All over Europe, a mix of well reputed international and local companies and organisations have reached out to their employees with financial support and active help. Unfortunately, so far IBM has done little or nothing in most European countries to support its European employees and their families. However, the company did increase the Consulting rates that are invoiced to our customers already twice in 2022, without any benefit to its employees. Arvind Krishna explained several times in his 'CEO Office Hours' that IBM looks at the cost-of-labour, not at the cost-of-living. This position was echoed at the IBM EWC meeting. The membership regards the position of its CEO and our company as distant and cold-hearted with a lack of empathy and compassion. The title of the IMF's latest World Economic Outlook of October 2022 - '**Countering the Cost-of-Living Crisis**' - is very explicit and was chosen with the clear reason to stipulate the problem. The IBM EWC believes that IBM senior management can't ignore the situation any longer. IBM executives are undoubtedly less impacted or maybe immune to inflation, unfortunately normal IBMers all over Europe are not. Therefore, explaining IBM's policy is not a solution for employees in need.

According to economists and HR consultants, the quickest and easiest approaches to actively support employees to cope with inflation, are salary increases and one-time bonuses. As also stated in our opinion of May 2022, the IBM EWC observes that the average ESP salary budgets for IBM Europe have been below the average market movement in both 2021 and 2022. Furthermore, the available ESP salary investments were not made equitably to cover and include all IBM employees around Europe. Finally, IBM's GDP bonus program has not been paid out for several years, due to changed financial metrics that cannot be influenced by normal IBMers. This all has had a negative impact on their buying power.

In the latest **Engagement Survey**, Compensation & Salary was again ranked as the #1 topic driving the most negative impact on engagement around Europe, for at least the 5th consecutive year. The IBM EWC cannot believe that this has been an ongoing trend for so many years now and requested IBM senior management at the meeting what is the point of completing the survey if no visible improvements are made. The team wanted to understand what concrete actions the company plans to take this time to tangibly and significantly improve the Compensation & Salary of its European employees.

The membership questions how seriously IBM senior management has taken the outcome of the Engagement Survey over the past years. Despite several encouraging results this year, the IBM EWC observes that the participation rate slightly dropped compared to 2021 and that 2 out of 5 IBMers decided not to participate. The IBM EWC believes that this indicates a lack of interest, faith and trust that something useful will be done with the outcome.

The IBM EWC holds IBM senior management accountable for good and socially responsible entrepreneurship. In the view of the membership the company also has a certain level of **'duty of care' towards its employees**. Simply repeating its current policies and just complying with minimal legal requirements only, thereby knowingly ignoring the fact that many IBMers around Europe and their families experience financial difficulties due to high inflation, is in the view of the membership not a sustainable and credible way forward.

According to the IBM EWC, shareholders are just one of the important stakeholders of a company, clients and employees are too. The focus on generating cash to optimise short-term financial ratios and almost exclusively accommodating shareholders, is according to the team out of balance. The IBM EWC requests IBM senior management to urgently revisit and adapt its current Compensation strategy and to make it more flexible and locally supportive, by allowing an immediate re-allocation of a substantial part of the company's 10 B\$ of free cash flow, to be equitably redistributed to its European employees to cope with high inflation.

The IBM EWC was informed about **IBM's Office Strategy** and new office locations to be developed and opened around Europe. The membership is supportive to this strategy and the underlying design principles, which are focusing especially on inclusiveness, new technologies and sustainability. IBM has an environmental policy for more than 50 years and has committed to be carbon neutral by 2030. This is much earlier than globally agreed targets and our company already made impressive progress in many areas. The IBM EWC believes that IBMers in most European countries contribute to these good results by working from home and are thereby helping to reduce the required office space and to lower IBM's energy consumption. In several European countries, IBM management even encourages employees to work from home to save energy. The team cannot understand at all that IBM senior management is not willing to compensate its employees for their increased cost at home and requests IBM to support them financially, for example by paying working from home allowances.

As per January 1, 2023, the Northern-Europe market will merge with Central and Eastern Europe into **NCEE**. The new combination will count 35 countries and is after DACH, the second largest market in Europe. The IBM EWC was informed that the wind down in Russia was the main reason for creating NCEE, thereby ensuring CEE with sufficient critical mass. In addition, IBM senior management said it will look for synergies. Overlapping roles and activities will be identified in the processes, however the team was informed that only a few percent of staff at (senior) management level will be impacted. IBM senior management stated that country expertise will remain and be continued unchanged within the NCEE countries and that no resource action and only limited internal redeployment is expected.

The membership was briefed on the expected synergies and the creation of a broader base of knowledge and expertise that can be shared to support our clients. The IBM EWC understands the rationale and potential of the new market. CEE countries for example have a more advanced and developed Ecosystem business, whereas the Northern-European countries can bring in and add their Consulting experience. The IBM EWC anticipates that the formation of NCEE will be more complicated compared to the merger of Nordics and Benelux into the current Northern-Europe market. Not only the number of countries joining from CEE is massive, CEE-countries are also organised differently and have many international Delivery Centers. Furthermore, the culture in CEE is not immediately comparable with the Northern-European countries.

The IBM EWC is overall positive regarding the market merge into NCEE. The team urges IBM senior management to be extra attentive to these various dimensions and to ensure that the implementation is not merely technical, but also requires an adaptive and behavioral change with focus on our employees.

The IBM EWC was informed about a change in the **Go-to-Market** model within the IBM Technology Unit. IBM will continue to cover the market based on three client segments, i.e. Signature, Strategic and Select. To ensure better focus on Select clients, this segment will become a two-tier model with '**Select Dedicated**' and '**Select Territory**' clients. The membership welcomes this additional segmentation while maintaining the stability of the Partner First model. This new approach, already piloted in CEE, provides additional clarity to IBMers in sales and technical roles within the new Select Territory segment. The proposed simplifications support a better focus on the products and solutions that IBM offers, especially in smaller European countries where there has been an overlap in roles and responsibilities. The IBM EWC believes that this change will improve the effectiveness of our Technology sellers in working with clients and Business Partners. The membership requests IBM senior management to inform and consult country representative bodies before local implementation.

At its May 2022 meeting, the IBM EWC was informed about IBM's **Internal Mobility Framework**, a new approach focused on internal redeployment and internal career mobility of IBM-employees, replacing resource actions. This Framework has been applied to several units, i.e. Marketing, Watson Health, TSS/TLS, Human Resources and Q2C. The IBM EWC welcomes this new approach to avoid redundancies and observes that since May most colleagues in scope have found alternative roles within the company through this Framework. However, data provided at the meeting also show that colleagues with more specialised profiles especially in Support Functions, i.e. Q2C, HR and Marketing, or with sales profiles who are expected to move to technical job roles, seem to have more difficulty in being re-assigned. The membership requests to provide these colleagues with additional time and appropriate re-skilling and up-skilling programs aligned with their background to retain a long-term career in the company.

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