



# EWC case studies

## Kraft Foods

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EWC case studies are available in electronic format only.

## Company profile

Since its takeover of Nabisco in 2000, Kraft Foods is now the world's second largest food company. It employs about 115,000 people, half of whom live in North America, at more than 200 production centres. Its activities are still concentrated on the North American domestic market. Further areas of emphasis are Europe, South America, and Australia. The development of Asian and eastern European markets is seen as insufficient.

Kraft Foods' multinational strategy, with relatively independent regional or local company units, has predominated for a long time, and is pervaded more and more by elements of transnational corporate policy. Among these elements are cost cuts and the optimisation of existing locations (e.g. through application of technical progress in the transnational framework or optimisation of capacities and consolidation on a regional and global scale). In addition, advantages are sought through cheaper raw materials and the use of production sources in free trade areas.

Kraft Foods consists of Kraft Foods International (KFI) and Kraft Foods North America (KFNA) – two completely separate organisational units. KFNA is structured according to product groups; KFI is organised geographically. Central management of Kraft Foods has its headquarters in New York. European central management is based in London.

From the European perspective, the following structural and strategic features of the group are significant: the group reacted to the increasingly fierce competition between companies in the European Single Market by creating a new union-wide organisational structure. Since the mid-1990s there have been a rising number of production relocations among the different works in Europe. Standard production and management procedures have been introduced in all EU works and national organisations. In addition, the EU region is now subdivided into individual areas (such as Germany/Austria and Scandinavia); and individual production centres have been combined in transnational clusters. This leads to a series of different decision-making levels with correspondingly different degrees of management function.

## The EWC

Kraft Foods has had a European Works Council since 1996. The beginning of the 'transnationalisation' of industrial relations at Kraft Foods (then Kraft) goes back to the second half of the 1980s. At that time the first dialogue, contacts and meetings took place, aimed at a voluntary EWC agreement. The driving forces were the international and European organisations of food trades unions (IUL/EAL) and the German union NGG, in conjunction with the Kraft works council. The food trades unions regarded the Kraft Group as one of the 'pioneer cases' for the establishment of a voluntary EWC because of its importance in the sector (size and branch leadership).

The European management emphatically refused. Only the adoption of the EWC Directive changed the political framework and led to the conclusion of a voluntary agreement (under Article 13 of the Directive). In March 1996 an agreement on the establishment of a European Council for all companies of KraftJacobsSuchard, the then European Kraft subsidiary company, was concluded – after four rounds of negotiation. In principle the agreement only applies within the EU/European Economic Area (EEA) including the British part of the company (in spite of the British opt-out, which made the inclusion of British EWC members optional). By contrast the European management strictly refused the demand to include employee representatives from Switzerland, the then headquarters of European central management.

On the management side the EWC is composed of representatives of the regional managements (Kraft Europe); the HR vice president is chairman of the EWC. This is the current employee representation: Germany has three members, Ireland and Great Britain have two members each; France, Spain, Belgium, the Netherlands, Denmark, Sweden and Norway have one member each.

The group has locations in all central and eastern European countries and the existing competition between locations is expected to further increase in the future. So the employee representatives in the EWC aimed at achieving the full participation of representatives from these countries from 2003 onwards. The management side refused this. At further negotiations on the EWC agreement of March 1996, in the middle of 2002, the employee side was able to reach the following arrangement: from 2003 delegates from the acceding countries could take part in EWC meetings as guests, before they attained full legal status automatically when these countries officially joined the EU in the middle of 2004.

As full members, Hungary, Poland and the Czech Republic would be represented by one member each, the other central European countries by one common representative.

According to the agreement, the European Council (EC) is:

*...a forum for the exchange of information and consultation on business issues of strategic and cross-border significance. [...] The EC deals with questions concerning business operations that affect at least two countries within the EU or the EEA.*

Among these questions are:

- the structure and the economic and financial situation of the group in Europe;
- the projected development of performance, production and sales;
- the employment situation and its projected development;
- significant changes concerning organisation, production relocations, mergers, re-dimensioning or closures of works; as well as extensive staff reductions.

Consultation on local or national questions that are subject to internal national legislation or to wage agreements, and which affect local management decisions, is explicitly excluded.

## Ongoing issues

Changes in the group structure and strategy are central factors that influence the development and operations of the EWC. More and more management functions are transferred from national group units to the transnational levels, such as individual production clusters, 'areas', a European central office in London or the KFI headquarters in New York.

Product management is organised globally; the factory layout is modularised and standardised worldwide. Therefore, the individual locations are subject to a permanent benchmarking through cost comparison, which also includes the option of product relocations. Although product management is directly subordinate to the KFI central office in New York, capacity redistributions have only been carried out (at least so far) within the European area; however, they do include central and eastern Europe. Production relocations take place not least after acquisitions of new companies, as recent examples have shown.

Parts of Distribution and Purchasing, as well as part functions of personnel management (personnel development programmes for executives), and marketing, are also centralised at the European or global level. This, however, only plays a marginal role in the work of the EWC.

Transnational central decisions on production relocations reach the locally or nationally responsible works councils in their respective committee meetings (such as the Economic Committee in Germany); this also holds true for the EWC, which meets once a year and – in management’s view – is not a body for location-specific discussions.

The problem of competition among locations and of product relocations has already influenced the internal operations of the EWC, i.e. the interactions of the employee side, in a lasting way. In June 1999 the employee representatives in the EWC developed and adopted an internal code of conduct in the event of production relocations. This code of conduct, which is analysed in more detail below, provides rules for the mutual exchange of information and for negotiations at the local level. Competition among locations is not averted in this way, but it regulates its unilateral handling, i.e. on the employee side.

Beneath the European level, group policy is characterised by increasing cross-border interconnections and combined competences at area and cluster level.

At area level, distribution, administration, and financial functions are combined. The combination of national units into areas serves, above all, to simplify the structure of communication and reports for the top management.

This structural feature of group development influences the work of the EWC both immediately and indirectly.

For example, the production centres in Germany (Lörrach), France (Strasbourg), and Austria (Bludenz) were combined in a first transnational production cluster with a common management structure. The employee representatives’ demand for information from other locations is great, due to the common management and the ensuing strong mutual interconnections (e.g. with respect to working conditions of employees transferred within the cluster). This has led to a demand for a cluster works council (with simultaneous translation), since all problems emerging in that cluster would otherwise have to be dealt with by the EWC. So far, the employee representatives of these three locations meet quarterly for an informal exchange. Managers of the clusters and the manager of the Strasbourg works have already participated in some of these meetings in order to give information.

Also in Scandinavia, the production centres in Sweden, Norway, Denmark, Finland, and Estonia are operationally part of Kraft Foods Norden.

In the whole Nordic area, there are more than 3,300 employees in eight production facilities. With regard to transnational industrial relations in Kraft Foods there is also a Nordic level of influence – a ‘mini-EWC’. A joint meeting between union/employee representatives and management is held every year. This structure is built on the operational structure of Kraft Norden but also in the tradition of an earlier existing cooperative body between Nordic trade unions.

A further structural feature of the group which influences the work of the EWC is the central importance of sectors (coffee, chocolate etc.) with regard to production, economy, and employment at the different locations. The sectoral logic is central to the further internationalisation of the group strategy, and so to the content orientation of the EWC’s work. Correspondingly, a half-day sector-related meeting between employee representatives and central (sector) management takes place before every general EWC meeting.

## **EWC meetings**

The EWC meetings take place annually. The meetings last three days, and that includes preparation and evaluation meetings. The agenda is set by central management (the EC chair) in conjunction with the employee side (the select committee). Management deals with requests concerning the venue, the cultural arrangement and the content of the general meetings in a flexible and open way.

One meeting has been brought forward so far but did not have the character of an extraordinary meeting.

Between the annual meetings the select committee of four members – composed of a Norwegian representative (chair) and one German, Belgian, and Italian each – is the decisive coordination centre, both with respect to internal communication on the employee side and interaction with central management (Kraft Europe). Meetings of the select committee and talks with management take place six to seven times a year, mostly at the European headquarters in London.

Company visits at different national locations are part of the practice of the select committee. The select committee also regularly informs the EWC members about the corresponding results of consultations.

## Outcomes and impacts

### Management

Management has up to now made an effort to keep the scope of action of the EWC within its legal and contractual limits; all demands by the EWC that are not provided for in the contractual or legal framework, above all the demand for a negotiating position, are weighed against managements' own cost-benefit calculations.

In accordance with this fundamental orientation, the existence of the EWC has not led to significant changes within the management structures and interactions. In terms of extent and quality, the EWC is informed by management in the same way as a European Economic Committee – if one applies the standards for an Economic Committee (Wirtschaftsausschuss) that are provided for by German law.

So far central management does not see any issues that it would, in its own interests, want to make matters of negotiation within the EWC framework. One exception is the issue of child labour, due to its political symbolism and importance for public relations.

Management has taken a proactive approach to political and public demands and is trying to meet this danger unilaterally by voluntary commitments. The management is open to or interested in an involvement of the EWC in the company's child labour policy.

### Employees

Altogether the Kraft Foods EWC is judged positively by the German works council leadership, because of the commitment of the (Norwegian) EWC chair and the trade union consultant of the EWC, and because of the overall development of this transnational body so far. It is seen as a transnational institution that creates added value. This view is also shared by the national subsidiaries (Sweden). In turn the employee side tries to integrate national information and resources (such as possibilities of informal access to central production management) into the work of the EWC and to further strengthen the EWC in the long term.

As to the innovative handling of individual matters, the EWC chair and trade union consultant have been the central protagonists; they have taken up and transported the topic of child labour as a social and a union political concern. This was met with a good response within the EWC, firstly, because the EWC members share the same values and are universally persuaded that child labour should be outlawed and, secondly, because the topic can be integrated into an internal group strategy relating to policy on interest representation. That means from the employee perspective that this issue could enable the EWC to expand its scope of action vis-à-vis management and extend it, in principle, in the direction of a negotiating function.

## Conclusions

Kraft Foods EWC has developed into a body that is capable of action. The individual competences of the EWC members have been improved, above all, by language training but are still not judged as optimal. Work and communication structures have been built up and further developed. The central role in this process has been played by the select committee, which meets about every two months. At the same time the necessity of further development of these structures has been acknowledged. It is necessary in order to consolidate the mutual information exchange. But there is also a need for a stronger specialisation by management functions in the EWC, and for the establishment of an information network that corresponds to the management structures.

The Kraft Foods EWC has demonstrated its ability to work on projects internally and adopted a code of conduct in which the employee representatives committed themselves to concerted action in the event of competition between locations. An agreement was reached that could strengthen solidarity in dealing with one another and expand the scope of action of local employee representations in general.

In this context the EWC is qualified on the employee side as follows: the EWC channel is a security net when other channels do not work; this internal code of conduct – a set of rules for and by employees for the (preventative) handling of transnational conflicts – is innovative within the general spectrum of EWC developments.

At the same time, the Kraft Foods EWC aims – besides strengthening internal coordination and cooperation – at an expansion of participation vis-à-vis the European management. The EWC has achieved recognition by the European management in the sense of a European Economic Committee with a corresponding level of information. Yet it aspires to more extensive recognition as a partner in dialogues and negotiations. The questions of data protection and child labour have already been introduced into the dialogue as possible matters of negotiation. The topics were discussed internally, at least, since in both cases it is possible to follow up existing initiatives and already concluded agreements with the majority shareholder Philip Morris or to join public discourses.

Attempts on the employee side to expand the scope of action and the role of the EWC beyond the (contractual or legal) limits can be discerned in two directions: first, towards an inclusion of delegates from Central and Eastern Europe; secondly, towards an expansion of the representation rights of the EWC beyond European borders.

For the EWC, the expansion of its geographic scope to central and eastern Europe clearly has priority, compared with transnational, global initiatives. Further development is anticipated.

However, the employee side expresses the following reservation:

*An (expected or possible) merger with United Biscuits would involve problems for the present EWC. Given the contractually agreed maximum size of the committee, about ten seats would have to be vacated for United Biscuits representatives alone.*

In the current stage of the EWC's development, such a restructuring would be premature and could impair what has been achieved so far.

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