



EWC case studies

The Merloni Group

Company profile

The EWC

The EWC process

Future developments

Conclusion

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Company profile

The Merloni Elettrodomestici multinational is one of the top three producers of domestic electrical appliances in Europe. It controls 14% of the European market and among world leaders it is the youngest company. Its industrial policy has always been inspired by an idea of sustainable development, nicely summed up in the philosophy of Aristide Merloni, the founder's father: 'In every industrial initiative, economic success has no value unless there is also a commitment to social progress.' 2001 saw some important goals achieved with a 23.1% growth in turnover and a 76.2% improvement in net profits. Furthermore, for the third year running there was a growing trend in yield taking the operating margin to 7.1% and the return on capital employed (ROCE) to 20%.

In the household electrical appliances market, 2001 witnessed a progressive economic slowdown on a world scale, with an inevitable drop in consumption. With reduced demand there was a 10% redistribution of the market share among manufacturers. In the process the Merloni Elettrodomestici group played an important role by expanding its market share from 9% in 2000 to 14% in 2001. The expansion of the group is part of a trend in household electrical appliances to centralise production within a few companies. In Europe at the present time, just four companies hold 58% of the electrical appliances market, a share that in the next five years is destined to increase to 80%, inexorably tracing the same patterns as the US where 92% of the market is concentrated in just four companies.

Merloni Elettrodomestici was created in 1975 from the Electrical Appliances Division of the Industrie Merloni, which had been founded in 1930 by Aristide Merloni in Albacina, Fabriano, Province of Ancona. The Merloni Elettrodomestici group broadened its own commercial objectives and developed a network of partners all over Europe. It gained important market shares in France and Great Britain and penetrated the other main markets as well. In 1987 it was floated on the Milan stock market and in the same year it acquired Indesit, which together with Ariston represent the two historical brands of the group. Two years later it was the turn of Scholtès, the French brand that produces high quality goods. Merloni started its growth in the sector of built-in products. The entrepreneurship of the managerial ranks pushed the group to explore new frontiers in the eastern European market, where it soon took on a leading position. Since July 2001, it has been listed in the Star, the segment of the Italian Stock Market that groups together stocks with high requisites. In March 2002, the Italian stock market gave Merloni Elettrodomestici blue chip status, thanks to impressive results achieved in terms of capitalisation.

At present, the group has 17 plants, mainly situated in Europe (Table 1), and 21 partners around the world: Western and eastern Europe, central and southern America, Africa and the Middle East, the Far East and Oceania. The shared service centre (SSC), the only one of its kind in Italy, centralises at its headquarters in Fabriano the administrative, legal, financial and fiscal services for the whole in Europe, allowing the market management to focus its attentions on business results.

Table 1: *Distribution of the Merloni Group*

| Country | Plants | Coordination centre for marketing and customer services |
|----------------|---|---|
| Italy | Albacina and Melano (Fabriano – Ancona), Comunanza (Ascoli), None (Torino), Carinaro and Teverola (Caserta), Brembate (Bergamo), Refrontolo (Treviso) | Paris |
| Portugal | Setubal | Paris |
| United Kingdom | Peterborough, Blythe Bridge, Kinmal Park, Yets | Paris |
| France | Thionville | Paris |
| Poland | Lodz | Lugano |
| Turkey | Manisa | Lugano |
| Russia | Lipetzk | Moscow |

Source: *EWC Gubbio, 19 July 2002*

The group’s organisational strategy thus tends to centralise the executive and the strategic activities in Italy, and decentralise the strictly commercial functions. Indeed, the coordination centre for all the activities connected with marketing and customer service of the commercial areas are: Paris for those markets considered to be mature, in other words the so-called ‘old Europe’; Lugano (where there are 60 employees) for eastern Europe, Africa and the Middle East; Moscow, for Russia; Buenos Aires for central and southern America; and Singapore for the Far East and Oceania. During 2001 the acquisitions area was reorganised, elevating the level of specialisation and realising at the same time a structure dedicated to the simplification of components. Acquisitions were then incorporated together with logistics and the planning of production under new management, in order to improve the service both for the productive units and for the clients.

The distribution of the group’s labour force has in 1999–2001 undergone a transformation from a majority of the labour force based in Italy to most workers being employed abroad (Table 2). This growing foreign activity is also shown by the group’s investment decisions. In 2002, with a general contraction in industrial investments at group level, there are two different trends apparent. In Italy, the value of these investments has gone down by about 32.5%, while abroad they have increased by 12.5%. The trend of operating abroad, rather than in Italy, shows the end of a corporate policy rooted in home territory, and the start of taking on a global character. This is also confirmed by the Merloni family appointing a managing director from outside the family at the end of a management overhaul. Total employment was 13,386 people in 2001, which was to become about 20,000 following recent acquisitions in the United Kingdom. It is mostly concentrated in the manufacturing plants. The unionisation rates in the various situations differ widely (Table 2), thus not just reflecting an uneven union sensibility but above all, an institutional and political distinction.

Table 2: *Employment and unionisation, 1999 to 2001*

| Country | Rate of unionisation | Employment | | |
|--------------------------------|----------------------|------------|--------|--------|
| | | 1999 | 2000 | 2001 |
| Italy (plants) | 50%–55% | 3,701 | 4,385 | 4,213 |
| Portugal ¹ (plants) | 40% | 439 | 431 | 375 |
| France (plants) | 35% | 370 | 339 | 303 |
| Poland (plants) | 0% | 131 | 338 | 531 |
| Turkey (plants) | High participation | 296 | 259 | 254 |
| Russia (plants) | Nearly 100% | | 5,974 | 5,527 |
| Total (plants) | | 4,937 | 11,726 | 11,203 |
| Total (non-plant) | | 2,352 | 1,946 | 2,183 |
| Total workers 2001 | | 7,289 | 13,672 | 13,386 |
| in Italy | | 5,098 | 4,757 | 4,888 |
| abroad | | 2,191 | 8,915 | 8,498 |
| United Kingdom ² | 25% | | | 7,000 |
| Total workers | | | | 20,386 |

(1): The Sabugo plant, which numbered 131 workers in 2001, was reconverted to warehouse space by 31/03/2002

(2): The data for the United Kingdom have been added only subsequently as the acquisition took place during 2001. For the unionisation rate we take as point of reference the British plant sold four years earlier.

Each manufacturing unit takes on a functional role, and a market role, that is autonomous in the space circumscribed by the lines of strategic conduct differentiated for the business units: three for the product and one for the services: cold, cooking, washing and the transversal consumer care service. Each business unit corresponds to a different director. Each market is managed by a country manager who has international experience, and for the specific needs of the market, guarantees the commercial development and proper placement of the group brands.

The cold business unit represents 32% of the company's production with about 3 million units produced each year. The size and nature of the products, i.e. refrigerators and freezers, has implied the logistic choice of locating production as near as possible to the distribution markets. Hence there are three so-called 'cold' factories: in Portugal, the plant at Setubal mainly serves the Iberian peninsula; in Turkey, the Manisa plant serves the local market and eastern Europe; in Italy the Melano factory (near Fabriano) and that of Carinaro, in the province of Caserta, export their products to western Europe; the Lipetzk plant, 400 kilometres south-east of Moscow, is aimed at the Russian market. There has been significant investment in the development of productive capacity and product quality.

The business unit dedicated to cooking represents 29% of the overall production of the group. The main axis of the business is the technological innovation capable of accelerating and making the production flexible while respecting the qualitative parameters. This improvement is aimed at development of a new productive plan with the opportunity to change product design every four months. Each plant has a precise mission to fulfil. The research and development activity is mainly carried out at the Albacina plant which is at the heart of a virtual network connecting all the business unit facilities, allowing for the circulation of information and the development of new products. Thionville, in Lorraine, is the Scholtès plant, one of the favourite brands of the French. High level and refined quality products are manufactured here. The company's extensive development in the Eastern European markets has led to the kitchens being produced in Poland, one of the strongest markets in the area. Today the Lodz plant serves all the markets of central and eastern Europe.

The 'washing' business unit represents 39% of the total output and is in second place among the great European manufacturers. The production of washing machines and dishwashers, the other main product of the business unit together with the digital components, is organised by productive platforms that allow for greater flexibility. The business unit is situated in Italy: at Comunanza (Ascoli) with a digital factory; at Teverola (Caserta) which is one of the largest industrial areas in the South of Italy; at Brembate (Bergamo) where the latest top-loading washing machine projects have been developed; at None (Turin) where the dishwasher factory is located whose output capacity is one million units. The turnover in this area is 60% of the consolidated revenues of Merloni Elettrodomestici.

All of the business units are transversally supported by a network specialising in the delivery of household services. This service inside the group consists of 1,500 service centres spread out across Europe.

The last few years have been characterised by an intense overhaul of the corporate dimension through acquisitions and transformations, without modifying the ownership set-up. During 2001, 50% of the capital of General Domestic Appliances, (GDA) was purchased and subsequently in June 2002 the remaining 50% was taken over, thus achieving complete control of the British brand Hotpoint. At the same time, in the Eastern European market the Russian factory 'Stinol' became integrated in the Merloni circuit, a process that had already started in 2000, covering a share equal to 36% of the Russian market of the sector. At the beginning of 2001, the industrial activities of Philco were also integrated while the electrical appliances factory producing motors at None was sold off. The plant in Sabugo, Portugal was reconverted to warehouse space in March 2002.

The EWC

In compliance with what has been laid down in the agreement, each member of the EWC is entitled to 32 paid hours to take part in the meetings, usually 16 hours for two days and 16 hours for any transfers. Informally the management grants a longer time allocation so as to allow the two coordinators to take part in the preliminary meetings and any other activities pertaining to the EWC.

The secretariat does not have a fixed headquarters as the central management provides it, whereas for daily activities the local personnel office is used.

In order to avoid organisational rigidity, there is a mutual agreement to waive the formal planning of a budget. Facilities made available to the EWC members are interpretation during the meeting, and office equipment such as fax, telephone and computer. Not all the EWC members have Internet access and email – only the white-collar workers as they use it for their jobs. As reported above, most of the EWC members, at least in Italy, are shop-floor workers who do not need the Internet.

The agreement provides for the right to request the skills of up to a maximum of seven experts whose role is supposed to be a skilled support, careful not to undermine the management autonomy of the EWC components. Usually only Italian experts take part and hardly ever reach the maximum number allowed.

The meetings

The select committee, made up of the French coordinator and the Italian coordinator, meets with the management two months before the date scheduled for the EWC meeting. On this occasion, the two coordinators and the industrial relations manager, in the presence of the manager of the international offices of the Italian trades union organisations, write up a draft of the agenda comparing the issues proposed by the management and the requests of the workers' representatives previously gathered by the two coordinators. The select committee is the body whose task it is to liaise

with the company between one meeting and the other. This leads us to suppose that if there are going to be some organisational changes in the future, the company management will inform the select committee members.

The founding agreement lays down one EWC meeting a year lasting two days, the first of which is dedicated to the information exchange between the workers' representatives and the second to the meeting with the management component. From 1996 until today, including the founding meeting, seven meetings have been held. No extraordinary meetings have been held. Before each yearly meeting of the EWC, there is a pre-meeting usually planned two months before to set down the points of the agenda.

The programme of the meeting drafted in the select committee's pre-meeting is presented to the other EWC members during the preparatory meeting held the day before the plenary meeting, without the participation of the management. On this occasion the news on staffing levels, production and general problems have become the core of the discussion from which more ideas are brought up to be added on to the agenda. Only on the day of the plenary meeting do all the members receive the file with the presentation, only in Italian, of the events, dates and company results achieved in the year under examination and the group's future prospects. Later on, there is a discussion phase in which one of the coordinators puts forward the agenda and the issues to be examined with the management. At the end of the meeting, the industrial relations manager drafts the minutes of the meeting.

The EWC process

Under some circumstances, the company has shown itself to be sensitive to the requests of the workers' representatives as expressed through the coordinators. This attention to the union proposals can be understood through two examples. The first one concerns the coordinators' request, later granted, to have email and the second refers to the coordinators' wish to transmit to the EWC office the conclusions reached on the 'conduct agreement', a request later granted.

The EWC activity has led to a progressive and continuous mitigation of the internal frictions and the divergences due to the different industrial relations cultures. The benchmarking and the exchanging of experiences have allowed the members of the various countries to better understand what the peculiarities of the other industrial relations systems are and at the same time have allowed the participants to acknowledge that the national level issues are often similar. Certainly, nationalisms have been erased but the EWC delegate himself perceives that over the years the EWC has contributed to enriching the members' knowledge and has developed, even if not in a complete way, a perception of the group no longer limited to a national territory but a European one.

Impact on corporate decision-making

At the moment, the Merloni Group's EWC performs a mainly informative function. In the case of the restructuring in Portugal, the EWC members received the information on the company reorganisation one year before the concrete implementation of the company strategy. The commitment expressed by the company in regard to resolving the problem of any employment cuts in a non-traumatic way avoided, according to the industrial relations manager, conflicts arising within this European body of representation. It should nevertheless be underlined that in those circumstances, according to what had emerged from the interviews, the EWC members did not put forward any specific requests to the central management, and so they did not perform a consultative function. In any case, according to the Italian union, the expansive phase which the group is currently going through helps the relationship with the workers' representatives both at national and at European level in that no problems are posed concerning cuts in employment levels.

Code of conduct

Awarded the 'Pa-Vision' prize for social responsibility, Merloni Elettrodomestici has also been one of the few European multinationals to have underwritten – with the national Italian unions (Fim, Fiom, Uilm) and with the Fism (International

Federation of the Metalworkers' Unions) – a code of conduct on corporate social responsibility, on 17 December 2001. Formally speaking, the code of conduct was not underwritten by the EWC, but through the interviews with the industrial relations manager of the group it was understood that the idea of reaching an agreement at international level was born inside the EWC. Having had the availability of the management, it was then decided to set up a group of EWC experts and management representatives whose purpose it was to lay down the contents of the agreement.

The Italian insider representative recalls how the initiative of drafting a code of conduct at world level was initially considered by the other EWC members as an initiative of the Italian union aimed at extending the national practices to a world level and for this very reason it was looked upon sceptically.

The forbidding of any form of exploitation, the application of ILO standards in the field of health and safety and the environment, and social development are among the principles that the code of conduct extends to all the states where the group is present, even to the states outside the European Union such as Russia, Poland and Turkey. The code of conduct also imposes some constraints on the network of suppliers and the companies that operate in providing service assistance. The agreement thus structured sets down the formal commitment of the Merloni Group to respect the norms on child labour, the principles of union freedom, labour organisation and the safeguarding of equal opportunities. The monitoring of respect for the social conditions outlined by the code of conduct is the responsibility of the National Equal Opportunities Commission, contemplated by the national group agreement. Furthermore, Article 5 of the same code of conduct envisages the group's commitment to provide information on the implementation and the developments of the agreement during the national information encounter laid down by the National Collective Labour Contract. For the countries that do not take part in the EWC, it is provided that the information will be provided to the workers' representatives and the union organisations in the individual plants by local managements.

Corporate identity

The Italian EWC delegate considers the act of recognising the European Directive as a need on the part of the company to 'give itself a European image because it comes from a family management and needs to build itself the managerial image of a European company'. It is believed that Merloni wants to put itself forward in a new European role as social interlocutor by extending abroad its own industrial relations procedures, described as 'participative' by the management. The work of the EWC certainly has some implications for the coordination of the different business areas in the different countries. However, the same organisational group set-up has so far avoided the development of any tension dictated by competition arising between potentially competing factories. The group tends to specialise in its production across different brands, thus excluding a market overlap. Following the acquisition of some factories in Russia, where 6,000 people are employed, the fear has increased, especially among the local Italian representatives, of possible employment reductions within the European Union, as a result of the shift to low-cost production.

The EWC also takes on the appearance of a 'slow enlargement' capable of accelerating the process of sensitisation to good industrial relations practices, in that it contributes to triggering off the mechanism by which the worker becomes aware of belonging to an international business and no longer a strictly local one. According to the management outsider, the EWC can also act as a kind of 'litmus paper', an ultimate test to understand the company's policy and to see how the industrial relations are developing in the other countries. The EWC has also contributed to developing greater attention towards critical issues, such as illegal labour.

Harmonisation of human resources policies

The group's industrial relations manager highlights how the EWC activity has contributed to a European approach as regards health and safety, equal opportunities, training and development, working conditions and the environment. The workers' representatives consider the EWC to be the appropriate place to compare the local situations and the underline the discrepancies in policy management in order to start up a process of harmonisation of human resources policies. In this regard, there is once again the complaint about the lack of the negotiating powers on the part of the EWC.

Conclusions

From the interview with the industrial relations manager, it emerges that the issues dealt with in the EWC are still very much linked to the national problems and so those that involve several countries are not often dealt with. The results achieved by the EWC seem to be much more useful to the workers' representatives of France and Portugal, as the Italian representatives already have direct as well as frequent contact with the group's management within the scope of industrial relations at national level. In this regard, the informational usefulness of the preliminary meeting between the workers' representatives and the experts should be underlined, a time in which information and experiences are exchanged about the different national industrial relations systems.

The Merloni EWC pursues aims that are mainly to provide information and it does not yet have a consultative and negotiating function. Broadening the EWC powers in the negotiating direction is something that the outsider workers' representatives and the EWC delegates hope for as the natural continuation of their national activities. Instead the management reckons that the specifics of national industrial relations are an insuperable obstacle to the transfer of different national contractual practices into a single negotiating channel.

What is inferred from the interviews is the awareness of the evolution of the EWC in the years to come. The Italian 'outsider' delegates are well disposed to a development of the EWC powers coherently with the intensification of European integration. As the European Union widens, so the powers of the EWC increase, transcending the functions of information and consultation and elevating it to a negotiating dimension. Although it has not yet taken place, there is an increased risk of restructuring following the internationalisation of the group. Instead, the management seeks to reduce national cultural discrepancies on the issue of industrial relations that hamper and delay the ordinary fulfilment of the functions that the EWC was contractually supposed to perform. This nullifies opportunities to achieve structural and functional harmonisation. However, as the outsider manager suggests, the EWC could be given a great proactive weight in the field of very broad, generalised issues without ever getting into the details of the bargaining itself.

From the interviews both with the Italian and French actors, it emerges that the role of the EWC is influenced by the pre-existing relationship between the Italian union, in particular the union Fim-Cisl, and central management. The important role performed by the national union in the setting-up phase of the EWC and the central function that it still continues to play in the running of the EWC are the result of its centrality within the scope of industrial relations at Italian level. The possibilities of the EWC's evolution mostly depend on the cultural set-up of the Italian actors and on the capacity to further develop an international vision of industrial relations.

The important role occupied by the national union can be seen in the dynamics that have led to the underwriting of a world level code of conduct with the group. Even on this occasion, the handling of the negotiations was carried out by the external union thus demonstrating that the activity of the workers' representatives at company level is influenced to a greater or lesser extent by the direct impact of the national union organisations. The French delegate of the EWC feels that the presence of the outside unions, in the role of experts, can in some way reduce the responsibilities of the workers' representatives, thus leading them to feel demotivated as regards the issues related to the EWC.

Another point that emerges from the interview with the Italian actors of the EWC is the informal way in which the requests made by the workers' representatives are handled. Indeed, the industrial relations manager satisfies some of the requests raised by the workers' representatives without, however, institutionalising them. If, on the one hand, this aspect may be interpreted as a positive sign of opening up to the proposals of the EWC delegates, on the other it contains a critical element. Indeed, when there is a changeover in the people involved in the EWC there will be a problem of reacquiring those rights that had previously been granted but had not been formally recognised.

Future developments

One proposal for improvement emerging from the interviews with the 'outsider' workers' representatives is for a greater frequency of meetings. In the first place, with reference to a moment of evaluation, after the meeting with the management, in which discussions can be held inside the EWC as regards the contents of the information obtained and/or planning a second yearly meeting at the EWC level. In the second place, the Italian EWC delegate suggested increasing the number of meetings of the coordination committee in order to intensify the contacts and thus avoid the problem, which had occurred several times, of overlapping requests from the French and the Italian coordinators. Another proposal launched by the Italian EWC delegate consisted in planning immediately at the end of the EWC meeting an encounter with the group coordination at Italian level, to disseminate the information obtained both rapidly and efficiently.

The company's internationalisation phase is not at the present time felt to be a source of danger in terms of the competition inside the company. Indeed, the products manufactured in eastern Europe not only supply different markets but also have inadequate technical standards to enter the western European markets. The fear that is perceived very clearly from the interviews, however, is that when the technological and qualitative gap is bridged, then the low labour costs characterising the manufacturing units in eastern Europe could trigger off a competitive mechanism inside the company. In this light, the EWC could carry out a phase of monitoring and controlling company dynamics. In order to prevent such a situation, the Italian EWC delegate would like the management to invest more in the technological innovation of the manufacturing units of western Europe.

The management considers it to be worthwhile extending the chance to join the EWC to Poland, Turkey and Russia so as to be able to provide some indications about the company and how to go about shaping an industrial relations attitude no longer limited to national dynamics. This objective appears to be compliant with what is laid down in the introductory phase of the founding agreement of the EWC in which the participative climate of industrial relations of the Merloni Group are considered to be 'the cultural premise to achieve, in the company, a definite multinational vocation'. The external EWC management representative suggests setting up some training meetings for the management in which different national industrial relations systems are illustrated, especially in regard to the eastern European countries. This would help the managerial class to better orient themselves in strategic terms in a territorial area that is still not very well known industrially speaking.

In order to start up a prudent phase of negotiations, the Italian EWC delegate put forward a proposal to set up some commissions inside the EWC on specific issues and in particular on health and safety, and training. The project would consist in regular three-monthly meetings of the commissions whose members, also developing negotiating skills, compare the national situations and deal with formulating proposals for improvement that would then be discussed at the EWC.

The French EWC delegate believes that the EWC should have a greater influence and above all try to better analyse the affiliated companies, putting greater effort and attention on the information coming from outlying situations. The French EWC delegate also suggests integrating the EWC inside the coordination committee set up with the code of conduct in order to see whether the company's behaviour has always been compliant with the principles laid down in the code of conduct itself. Furthermore, the French delegate of the EWC complains of the scarce consideration afforded by the Italian unionists who take part as experts in the EWC meetings to the outlying union representatives.

The Italian union has a dominant role in regard to the company-level workers of the other countries in that it is the interlocutor with which the group relates on industrial relations at Italian level. This central position is seen as a limitation by the French EWC delegates who suggest containing the number of industrial federation unionists. The

Italian EWC delegate highlights the fact that some thought should be devoted to finding ways to transform the role of the external union so that it no longer acts as a protagonist but takes on a supporting function by means of which the EWC delegates themselves can be helped to grow.

Conclusion

The Merloni Group was one of the first Italian groups to set up an EWC, proving their interest in creating a proactive European image on the issue of industrial relations. This feature is also manifested by the underwriting of a code of conduct at group level. The activity of the EWC is influenced by the centralised structure of the group's industrial relations system in Italy, where the external union organisations have a very important role. The Italian unionists and the industrial relations manager have a central position in the EWC. In spite of the growing interest in international relations displayed by the group, the Merloni EWC continues to have a merely informative function. So far there does not appear to have been any real chance for the EWC members to put forward to the management a concrete proposal on issues of a transnational nature. The EWC has not yet acquired negotiating powers, a development that is desired by the workers' representatives both inside and outside the EWC, but which is considered premature by the management representation. One issue that seems to worry the workers' representative is the possible growth of competition inside the group due to the acquisition of factories in Eastern Europe, on which the EWC asks to have a monitoring function.

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