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National report from The Netherlands

Company case study 2: Pharma2

AIAS-HSI, Faculty of Law, University of Amsterdam, Netherlands

Frank Tros / Giedo Jansen

Pharma2

1. Company characteristics and innovation

Pharma2 is part of a multinational company that employs around 10,000 people. Its headquarters are in the USA. In the Netherlands, Pharma2 runs a production facility with a total of 1,400 employees. Pharma2 has long historic roots in the Netherlands: it just celebrated the centenary of its existence in the Netherlands. Pharma2 played a role in the development of the contraceptive pill. After being part of several successive owners, in 2021 Pharma2 became an independent company focusing on women's health. R&D activities are no longer part of Pharma2 as in the past, but these activities are being further developed in pharmaceutical start-ups near Pharma2's production sites. The Dutch sites of Pharma2 are active in production, packaging and distribution. Business processes include high-quality technological production and more simple packaging operations as well (and other operations).

Pharma2 works according to the principle of continuous improvement of business processes and every plant in the Netherlands has its own 'Improvement Engineer'. The company can be characterised as a 'professional organization that continuously reflects about opportunities in process innovations in the triangle 'Systems – Processes – People' (interview Pharma2 HR). During the last three years, Pharma2's IT department ('Business Technology', BT) focused on the implementation of Pharma2's own basic IT system, independently from the (old) systems of the former owner. Now, the company can think more about IT innovations in the longer term, specifically in the field of AI. One of the innovations is the use of advanced camera systems for visual inspections of the quality of the products. '*This does not mean that the human inspectors / laboratory technicians are redundant but that they can be employed in better ways in less monotonous working conditions* (interview Pharma2 BT). Another AI example is a machine learning tool for reporting malfunctions in the factories, initiated centrally in the multinational. Employees encounter AI in everyday work, such as the works council which reads minutes of the meetings between the management and the European Works Council, prepared with AI support.

Recently the headquarters in the USA disseminated a short AI Policy document with basic global guidelines for using AI in the company, including considerations of transparency, human orientation, privacy, robustness and regulatory compliance. This document differentiates between AI in 'low risk' and AI in 'high risk' environments. Pharma2 in the Netherlands was not involved in the development of this policy. This top-down initiative and its centralised policy assurance is linked to the highly regulated environment of the pharma business (interview Pharma2 BT). The main guidelines do not mention the assessments of AI impacts on employment, jobs or professions.

2. Workforce characteristics and labour relations

Pharma2 in the Netherlands negotiates with two trade unions about the collective agreement on the terms and conditions of employment;[1] with FNV, the largest general trade union federation in the Netherlands, and with VHP2, a small professional union for white collar workers. Union membership in the business establishments in the Netherlands reflects the national picture of the Dutch manufacturing sector (interview Pharma2 HR): so around 10 percent, and on a declining trend.

Reflecting the Dutch *dual channel* system of workers' representation, separate from unions, there is a works council in Pharma2. A minority of the members in the works council are also union members, but '*we do not have a very warm relationship with the union, I must admit quite honestly… that also has to do with a certain style of FNV … that is not our style, so to speak*' (interview Pharma2 WC). The unions do not intervene in the agenda and work of the works council. In this, the company is no different from most other companies in the Netherlands. The works council at Pharma2 showed in the past an active approach in topics like working time management and insourcing and outsourcing. Nevertheless, the council is less visible on the issue of technological innovation (interview Pharma2 WC). Both HR and the works council are aware of the consultation right of the works council in case where new technology is introduced. But both find is difficult to define 'when is it new?' Mostly '*new technology is creeping in*' (interview WC). On the management side, the HR manager supports the director and is present at the consultation meetings with the works council. The relationship between management and the works council is based on '*transparency, mutual trust and cooperation*' (interview Pharma2 HR). A barrier for the Dutch works council is that Pharma2 is an American corporation that is not used to involving workers' representative bodies: '*so you sometimes see that things are determined by "corporate" and that the Dutch Works Council must go along with it.. or is too late involved*' (interview Pharma2 WC).

3. Worker participation practices

Employees at Pharma2 are constantly busy with optimising processes. Every process operator is able to suggest improvements in methods, processes or quality. '*This kind of employee involvement is very well organized, and deeply in the organization*' (interview Pharma2 HR). The organisation works with the standard method that employees use to solve problems. One of the instruments is to ask the '5 times why' after being confronted with the same consecutive malfunctions or other problems in the process. Pharma2 works with the 'Lean Six Sigma Belts' in supporting process innovations among its staff. Improvement engineers are key players in listening to operators about problems and their suggestions and in organising smaller or bigger projects among the personnel to improve or to innovate. '*In our company there is a lot of room for employees to contribute their own ideas, but only through a method that everyone knows, so that it doesn't go in all directions*' (interview Pharma2 HR).

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[1] In the chemical industry in the Netherlands, there is no sector level bargaining nor other forms of multi-employer bargaining.

The works council is not structurally involved in the above-mentioned methods of direct worker participation innovations, nor with technology innovations. The chair of the works council, already a works councillor for 10 years, tells us that technology was sometimes on the agenda, but that at in this field '*we could never come to a conclusion as a works council and director together… the dialogue always came down to the fact that we just have to go along with it … that we are just a part of "corporate"…*' (interview Pharma2 WC). Nevertheless, the chair of the council also says that '*it is important as a works council to be involved in technological developments as much as possible… in the past I have often seen that a new process is started in which we are not included and that it turned out afterwards that it does not work or did not have the intended results. It can be that employees themselves can raise issues, but the works council can better test the whole process to see whether it will have an impact somewhere in the organisation*' (interview Pharma2 WC). A recent example where the council raised its voice was after the previously mentioned introduction of an app for the reporting of malfunctions in the factories, where they addressed the problem that not all workers had a modern phone or were able to install the app. According to HR, people should be supported in new digital skills instead of continuing to work '*in the old analogue world*' (interview Pharma2 HR). More generally, the works council worries whether there is enough knowledge, skills and attention in the organisation to keep an eye on the human aspects and to assess whether AI development are not going too fast for the personnel.

In the past three years, the management did not involve the works council in the previously mentioned installation of a large company-wide basic IT-project on data management and automation, other than to give them information. '*In retrospect, we could have pointed out the impact on employees and the need for training and time for education for the people*' (interview Pharma2 WC). The council could have raised the issue that employees in production do not have enough laptops and computer places to be trained. More generally, '*when new technology is rolled out globally, people are too quick to say 'oh well, just accept it'… which is a shame, because I think there are opportunities there to discuss this with each other*' (interview Pharma2 OR).

Pharma2 worked with a couple of 'central value teams' for all manufacturing sites in the implementation of the new Business Technology system. The management in Oss organised training and education sessions for the users of this software and some workshops in several implementation phases, beginning with early field tests by the employees who had to use this technology. The Business Technology department gave practical support to employees in the factories. The department worked through the questions which came from workers on an ad-hoc basis (bottom-up), and also on a more structured basis through work meetings ('werkoverleg') between managers and operational coaches. But the scope for change in making local tailored business technology systems was limited. '*It is policy to equip standard processes with standard systems, which is more efficient and cost-effective*' (interview Pharma2 BT).

4. Future prospects

The interviewed BT specialist, HR manager and works councillor all see that AI is already a change factor for Pharma2. According to the BT specialist '*AI developments are there, but that does not include radical changes in the coming years…. if there is business interest in more AI applications, we*

can look if we can organize a small experiment…'. The Dutch sites seem to have a more wait-and-see attitude and more initiatives in AI are expected from the headquarters in the USA in the context of the broader business needs.

The works council is ambivalent about investing in knowledge acquisition and coordination in the area of technological innovation and AI. On the one hand, these topics are not the most urgent. An upcoming restructuring or the introduction of new working time schedules or something like that would have more priority (interview Pharma2 WC). On the other hand, the council is looking for a role to be involved earlier and more actively in discussions about AI, for example in making risk assessments for workers and the organisation. One of the scenarios is to consider the installation of a temporary working group among councillors (and maybe additional employees who are not on the council) who have an affinity with AI and who can have a dialogue with Business Technology about human and social issues. Another scenario is to address AI as an issue for the European Works Council of Pharma2, although the chair of the Dutch council (involved in the EWC as well) doubts whether the management at European level can be persuaded to go along with this.

The HR manager can imagine that the works council might function as 'extra eyes and ears' in the organisation to solve technological problems in the business organisation. A problem in formal procedures in the context of the co-determination legislation in the Netherlands ('Wet op de Ondernemingsraden' – the Works Councils Act) is that AI applications are part of a continuous process. So, '*at what time exactly do we consult a works council?*' (interview Pharma2 HR).

References

Quotes from 3 interviewees (checked and agreed):

- Human Resources Director (HR)
- Chair of the works council (WC)
- Executive Director Business Technology (BT)