Quality of jobs and Innovation generated Employment outcomes

QuInnE.eu

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Gyermely Zrt. – Innovation in an Agricultural Cooperative

Case

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QuInnE - ***Qu****ality of jobs and* ***Inn****ovation generated* ***E****mployment outcomes* - was an interdisciplinary project investigating how job quality and innovation mutually impact each other, and the effects this has on job creation and the quality of these jobs.

Drawing on the Oslo Manual, both technological and non-technological innovation were investigated. Through quantitative analyses and qualitative organization-level case studies, the factors, as well as the mechanisms and processes by which job quality and innovation impact each other were identified.

The QuInnE project brought together a multidisciplinary team of experts from nine partner institutions across seven European countries.

QuInnE Project Member Institutions:

- *Lund University, Sweden*
- *The University of Warwick, UK*
- *Universitaet Duisberg-Essen, Germany*
- *Centre Pour La Recherche Economique Et Ses Applications (CEPREMAP), France*
- *Magyar Tudomanyos Akademia Tarsadalomtudomanyi Kutatokozpont, Hungary*
- *Universiteit van Amsterdam, The Netherlands*
- *Erasmus Universiteit Rotterdam, The Netherlands*
- *Universidad de Salamanca, Spain*
- *Malmö University, Sweden*

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More information about the project and project generated publications and material can be found at www.quinne.eu.

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The QuInnE teaching cases and teaching notes are based on the confidential field research conducted in the context of the QuInnE project. They are written to provide material for training and class discussion rather than to illustrate either effective or ineffective handling of a management situation. Personal names and identifying information from the research cases have been altered for the purpose of confidentiality. The case studies and teaching notes have been developed in cooperation with RSM Case Development Centre of Rotterdam School of Management, Erasmus University (www.rsm.nl/cdc).

The Gyermely case is largely based on confidential field research cases conducted in the context of the QuInnE project, WP6. Although the company exists, the description has been optimized for teaching purposes and all personal names and identifying information from the research cases have been altered for the purpose of confidentiality.

Gyermely Zrt. – Innovation in an Agricultural Cooperative

In September 2016, Bence Kovacs, a long-term assistant of the CEO of Gyermely Zrt., was contemplating the acquisition proposal from a private equity group. Gyermely Zrt. was a private company that manufactures dried pasta and produces raw material such as flour and eggs. A management meeting was scheduled in one week, at which the top management team would be expected to finalize the company's direction with regards to the acquisition. The deal was surely attractive. They also promised that the long-lived corporate culture would be preserved and that its loyal employees would be offered equivalent positions in the new company. However, being close to the industry for nearly 20 years, Kovacs also knew that once sold, all strategic decisions, including the ones about the employees, would be in their hands. Clearly, management was also unsure what to do. Because of his experience in the company, Kovac had been asked to review the history and corporate milestones and to reflect upon the key social, technological and managerial-organizational innovations at the heart of Gyermely's success. His review would be the basis for a discussion about Gyermely's future direction.

Company Background

The history of Gyermely Zrt. dates back to the middle of the last century. In 1953, twelve farmers of Gyermely village founded an agricultural cooperative mainly dealing with plant production and eggs for sale. The first packages of pasta were wrapped about twenty years later (1971). Before the collapse of the state-socialist political and economic regime, the firm was run in the form of an agricultural cooperative. By the 1980, its activities covered the entire process of dried pasta production. The shift in the political and economic regime in 1989 brought challenges for the company, which led the management to transform the company form. The one-time agricultural cooperative was transformed into a private limited company and led to the establishment of Gyermely Zrt. in 1990. During the transformation process, management focused primarily on the market and production activity. The income generated by the company was continuously spent on developing the company. In contrast with failures of other Hungarian food companies, the management successfully maintained its authority in shaping the company's future. By 2016, Gyermely Zrt. was not only the market leader of Hungary but also one of the most significant in the Central and Eastern Europe. The company group, controlled the product path right from the production of raw materials to the sales of the finished products, in the form of vertical integration.

Social Innovation - The rise of micro-corporativism

By the end of the 1970's. the well-designed capital accumulation and socially responsible management devoted more financial resources to social purposes. For example, the company supported its employees in constructing their homes and developing Gyermely village and the neighboring settlements.

During the mass privatization of the 1990's, the management incorporated the indivisible assets of the company, apart from the land. Such assets were shared everyday between the employees

and the management. Such practices are commonly referred to as Employee Stock Ownership Plan (ESOP) and Management Buyout (MBO), respectively. In ESOP, the employees could obtain shares in the company as a part of their remuneration. Because of this ownership participation, many employees of the former cooperative became the co-owners and took active role in the everyday operations of the company. When deciding on the number of shares, consideration was given to the years spent with the company, the assets taken in, and position of the individual, while also paying attention to inclusivity. For example, between the director of the company and the tractor driver who joined the company at the same time, there was no more than 1.5 times difference.

ESOP and MBO not only offered access to the financial resources required for the changes in the organizational renewal and the technological development, but it also led to cultivation of corporative culture based on micro-corporatism whereby the social-consent was the determining system of the corporate modernization strategy. Micro-corporatism also entails the decentralized and hence more flexible employee collective bargaining structure[3]. Being the owners of the company themselves, the managers did not only pursue the interests of their own divisions, but also worked for the success of the entire company. While ESOP and MBO, at many companies, eventually turned into an exclusive MBO as employees sold their shares to the management, most of the employees at Gyermely Zrt. retained their shares of the ownership. Such novel joint-participation and ownership assured a competitive advantage for the company. However, the number of owners decreased as some employees cashed their share of ownership and due to the retirement of some employees.

The key concern for the management was to develop the external knowledge sources (*know-how*) and the capital jointly as well as to increase the company's market share. This was achieved without hostile take-overs, for example, by having a German investor in the management. The investor met the minimum requirements and provided tax reliefs. The investment contract granted a one third of the shares with preference shares and double dividend, however, without a voting right.

Technological Innovation - Automated logistics

Since the foundation, utmost care was taken to apply the state-of-the-art technology available when the series of technological development decisions were being made. Because of conscious development strategy during the past 45 years, the efficiency of production had been increased by using the most modern technology.

At the initial stage of company development, development investments in the raw material production were very necessary. By the time the pasta factory was constructed in 1971, the cooperative had actively been engaged in plant production, animal husbandry (poultry), egg production and forage mixing. Ever since, the willingness of the company to invest has not diminished.

[3] https://www.eurofound.europa.eu/sites/default/files/ef_publication/field_ef_document/ef1548en.pdf

At the beginning of 2000's, the management of Gyermely Zrt. worked out a long-term plan for modernising, renovating and extending the existing warehouses and plants. Within the framework of the development plan, a wheat seed plant was constructed in 2003, and in 2004 the new pasta factory with offices, social facilities, boiler room, heating centre, and the first totally automated elevated warehouse were added. The company was one of the first among the European pasta manufacturers to adopt warehouse management software (WAMAS) system to control and monitor the production in the early 2000s. The WAMAS system-enabled warehouses have reduced the period and costs of commissioning, improving the efficiency and the punctuality of transportation, thereby increasing the customer satisfaction. The storage conditions have also improved as the products and pallets are less prone to be damaged in transit. After the modernisation of shop floors and logistics work, process have been organised in such a complex system in which the single stages (mechanical system, packaging system, logistic system, robots, transporting tracks) are interlinked automatically.

The efficient exploitation of the investment in the technologies would not have been possible without increasing the volume of export. Because of the developments, Gyermely Zrt. had become one of the most modern pasta factories and service outlets in Europe. Brand awareness in Hungary was exceptional, and products appeared in foreign markets in a continuously increasing volume.

In 2016, the largest national companies could not receive EU funds. The Plant Production Centre, for example, was exclusively built from internal sources. The new pasta factories and the elevated warehouses were built with the support of the subsidies, such as the one provided by the Ministry for National Economy Funds Corporate Investment Support Programme, available for large national companies not supported by EU funds.

Managerial-Organisational Innovation – The organizational restructuring and the increased employee engagement

When looking back, both technological and managerial-organizational development can be traced down in all the activities of the company. A great emphasis was placed on the implementation and exploitation of the whole value chain (VC): producing high quality raw materials, manufacturing them in highly automated processes and selling the final product with the cutting-edge logistics and marketing methods.

Previously, commercial and the logistics functions, such as the procurement, stock taking, warehousing, were operated independently within the company, which caused more and more problems after the expansion. To avoid further problems, the company group was transformed into a matrix organisation. In 2005, Production units (mill, feed, pasta, egg) retained their basic activities, while the new functional units (logistics, trade, back office) controlled other specific functions. This ensured that the management and the production units were able to concentrate solely on the production and development. Such working system made a quality-centred, cost-efficient production possible to minimise the transportation costs as well as the environmental damage. Such organisational transformation in turn created the need for even more comprehensive logistics.

While such strategic decisions were made by the board, the operative decisions were in the hands of various divisions. Through the employee stock-ownership programme, employees were readily engaged in the future and development of the company. Furthermore, the company also had introduced more common instruments of employee participation. If employees had ideas on how to improve the efficiency on their own or in other related activities, they could have put their proposal into the box located in the centre place of the shop-floor. The rationale behind suggesting new views for neighbouring workplaces was that an outsider might recognise efficiency enhancing solutions better than those who worked there on a regular basis. The submitted proposals were to be evaluated by the management of the given area. Some ideas were implemented, and idea owners received monetary rewards in addition to their salaries at the end of the month. An owner-employee electrician expressed that: "*We can take part in such developments that do not necessary happen at other companies."*

Changing skill structure and the growing importance of further training

Over years, the continuous technological innovations created an increasing demand for mechanical, electronically, and mechatronic skills, as well as system thinking on automation. The labour demands have shifted to a more complex, problem solving and system centred professional knowledge.

Despite, the modernization was not accompanied by any layoffs. On one hand, the company offered in-house training courses whereby experienced employees transferred their skills to the new, inexperienced staff - practice known as the on-the-job training. (OJT). The suppliers of the new machines also provided the support for the installation as well the trainings required for the daily operations.

The good working environment, cooperative-caring leadership style and good wages have all contributed to the company's labour turnover, lower than the of the food industry. Most employees lived in the neighbouring villages (Szomor, Tarja), and the local bus services are operated by the company. Gyermely Zrt. assisted the villages not only be paying the local taxes but also with its helpful and supportive attitude. Social responsibility was taken seriously. As an example, the company played a key role in the renovation of the Healthcare Centre. In addition to the care for its own employees, the vertical integration has also created new jobs within the new wheat producing partners and their employees.

To ensure the long-term labour supply, the company has also established joint programmes with the local authorities, elementary school and regional institutions of vocational trainings. The Local Government and the company identified the professions in shortage and established scholarships for apprentices in the local region. With the local elementary schools, the company have been organised career days to give insights into the professions of engineers, mechanics, or electricians. In collaboration with Szent Istvan University, dual training programs were launched. Each year, two students are selected to work in the company in summer.

After reflecting upon the success of the company, Kovacs was convinced once again that the survival of the more-than-half-a-century-old Gyermely Zrt. was rooted in its innovative strategies. They had worked synergistically and had led to an exceptional competitiveness. The corporate structure and the employee ownership were vital to the company. Kovacs was not only proud of the company's socially responsible and inclusive approach during the times of restructuring, he also felt strongly about the company's embeddedness in the social fabric of the local community where it fulfilled a key role in shaping the local labour market. All in all, Kovacs was ready to present his findings during the upcoming management meeting.

Appendix: Brief historical overview of Gyermely Zrt.

1953 (Co-operative ownership)	**Foundation of Petőfi Cooperative**
1959	The cooperative is re-formed; the average yield of cereals increases due to land allocation into plots, mechanization and the use of fertilizers and pesticides. Farmers start intensive animal husbandry and produce eggs for sale.
1970 – 71	In 1970, the leaders of the communist party agree on building a pasta factory. In 1971 pasta production is started after the association of two trade companies and a professional investor. At the end of the 1970's the results are promising and after two decades of conscious capital accumulation and thrifty management the company can afford to pay social expenses. It supports its employees in constructing their homes and developing Gyermely and the neighboring settlements.
1980's	The cooperative is extended to the borders of four settlements. It builds a mill to ensure the smooth flow of raw material for the pasta factory. In 1989 120 tons are ground a day so a new industry is born.
1980	The cooperative becomes a private limited company. The founders become real owners and the employees can also obtain shares after their work for the company.
1992 Employee Stock Ownership Plan (ESOP)	The cooperative takes the form of an Rr. (Plc). (Gyermely Rt)
1992	A new forage plant
2000	Area of farming: 9500 ha
2001	A new mill equipped with Bühler technology: with a capacity of 300 tones a day.
2003	Integration is extended: a new wheat-seed plant
2004	Flour silage and flour mixer units are built
2005 (Ownership combination)	Combination of ESOP and Management buyout (MBO) → Concentration of ownership
2005	• The mill is equipped with an automated sack unit and a small wrapping unit • A new shop floor with automated elevated warehouse and a small wrapping line.
2007	Warehousing of 5 kg bags is carried out by robots. Passing pallets to the elevated warehouse is automated. All the tractors are John Deere.
2008	New machinery with 1500 kg/hour goods. A new grain dryer is established in Tök.
2009	The plant capable of breaking 4500 eggs per hour is completed.
2010	Another new grain dryer.
2011	The second elevated warehouse.
2012	Building a new mill (durum, soft wheat), commissioning and a wrapping warehouse. Grinding capacity increases from 90 thousand tones to 140 – 150 thousand tones in the new mill.
2013	• Máriahalom: modernization of the poultry farm • A storage system for keeping and cleaning 32000 tones of grain is built
2014	Implementation of new flour packing equipment.