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## Cluegg International and the Tocopilla Jam

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## Cluegg International and the Tocopilla Jam<sup>1</sup>

London, 24 September 2004, 6 pm. After reading the letter sent to the Board by the assembly of workers in Tocopilla, Chile, yet again, Bob Gray, *Business Development Director* of Cluegg International, stretched his legs on his desk. He started pondering his doubts. Turning his gaze to the window, he found himself watching the lazy course of the Thames under the Blackfriars bridge. A number of questions seemed to ebb and flow in his mind, like the waves of the Thames breaking against the bridge's pillars and than disappearing in the river's dark bed.

He reflected on that afternoon's Board meeting, and the difficult choice they had made. Did the Board make the right decision? Was there nothing else they might have done to respond to the Tocopilla workers' claims? Did Bob, in his influential role of strategic planning, provide the Board with all the relevant information upon which to make this important decision?

He just wasn't sure...

### **Cluegg International Ltd.**

Founded in 1864 by an old English family, Cluegg International is today a transnational corporation leading the market of jam production and distribution. With over 56,000 employees and 115 facilities in 65 Countries, the Group is the most internationalized business in the industry, with a total of 170 jam brands including products distributed globally, regional brands (the Group operates in 5 macro regions: West Europe, East and Central Europe, the Americas, Africa, Middle East and Asia-Pacific), and specialty products. Cluegg Int. is governed by a Board of Directors, based in London, which includes the Group's President, the CFO, the five Presidents of the Regions and ten Directors of the various corporate functions, such as Human Resources, Legal Affairs, Internal Audit and the Director of *Business Development*, Bob Gray.

Cluegg Int. is a corporation committed to the principles of *Corporate Responsibility* and *Sustainable Development*. In its *Corporate Vision*, Cluegg states that the values guiding its business strategy are the following three:

- ***Respect for individuals, society and the environment:*** *Cluegg sees itself as an integral part of the local and global communities in which it operates. This not only means that we respect the laws and regulations of the countries where we are active, but it also means that we respect international laws and norms. First and foremost, Cluegg acknowledges the fundamental human dignity and basic rights on which the Universal Declaration of Human Rights is based. This is reflected, among other things, in the respect we have for the differences in people, cultures and beliefs. We are very much aware of our responsibility towards our operating environment: spearheads of our accountability management include our highly evolved environmental policies;*

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<sup>1</sup> This case has been prepared by Simone de Colle and Ed Freeman, The Darden School of Business Administration, University of Virginia. We thank Jeff York for thoughtful comments. Copyright © 2007 Simone de Colle and Ed Freeman.

- **Enjoyment: we bring enjoyment to life:** Cluegg makes life more enjoyable. We do this through producing some of the world's greatest jams and then marketing them responsibly through innovative sponsorships, advertising and promotions to consumers around the world. Our sponsorship portfolio, which spans sports, music and the arts, includes many positive events that contribute to the enjoyment of many. We also encourage this core value within the working life and atmosphere within the company;
- **Passion for quality:** Cluegg has a fundamental belief in the concept and delivery of quality in everything it does or produces. It goes without saying that this applies to our brands, but it is also reflected in our other activities such as our social and employment policies. We believe that through being a 'quality' employer and investing in our employees, we create benefit and value both for ourselves and our reputation and for those who work with us and depend on us for their livelihood.

*"Cluegg's core values are fundamental to the way we do business today; they support our drive towards economic, environmental and social sustainability. These three values are embedded in our corporate culture, social activities and policies on corporate social responsibility. Our local operating companies have all put in place common values and business principles to govern our activities and conduct around the world. Their conviction provides a guiding principle for our central corporate responsibility agenda. We are driven by the conviction and efforts of local operating companies' management and staff sharing the efforts of Cluegg in a responsible way and responding to the expectations of the world around us.*

*Transparency is key to this approach. Open dialogue inside our business, and with others outside, helps us learn more. The valuable information dialogue provides will contribute towards building a more sustainable Cluegg. It will strengthen our corporate reputation and help to generate positive brand associations".*

The corporate commitments, well visible on the group's website, and published in the *Sustainability Report*, also include "a key commitment to increasing sustainability. Our aspiration is to deliver sustainable, superior results as the end result of our business practices.

### **The strategic plan**

In 2003 the performance of the Cluegg Group can be synthesized by the following numbers:

- increase of the total production by 11.3%;
- increase of total revenues by 9.6% (total: \$11 billions);
- increase of net profits by 10.7% (a total of \$ 930 millions) ,and
- increase of distributed dividends by 50% (from \$ 196 to \$ 294 millions).

Despite these brilliant results, a solid position as market leader, and a reassuring forecast of a 4% growth of the global market, the Cluegg management started in 2004 a strategic plan aimed at the rationalization of the Group resources, in order to gain further

competitive advantages from possible economies of scale resulting by the optimization of the production facilities worldwide. Rob Gray was appointed to lead this plan, by providing the Board with his recommendations on the choices that the Group would have needed to take to improve its production efficiency.

As it can be read in Cluegg's 2004 Annual Report, the Group strategy is directed towards the future with a clear vision: "*The clear message to all our stakeholders is that we are proud of what we have achieved this year and we are confident in the outlook for the future. Our challenge now is to make high-level performance sustainable.*"

### **The Tocopilla Jam**

Among the 5 manufacturing factories owned by Cluegg in Chile, the Tocopilla factory is based in the small town of Tocopilla, at the feet of the beautiful Andes Mountains. The factory is famous for the production of a mountain chestnut jam, called the Tocopilla Jam, of excellent quality. The Tocopilla factory represents for the Chilean local community a very important economic institution, having been founded at the beginning of 1900 by Guillermo Vallebon, the progenitor of the Chilean family who successfully owned and managed the factory until 1974, when Cluegg International bought the facility. The factory also include a restaurant open to the public, initially born mainly as a shop for exposition, tasting and selling the Tocopilla Jam, which during the course of the years became so popular that is now the main gathering resort for the whole valley around Tocopilla, and a privileged stop for many tourists visiting the region.

The Tocopilla Jam kept its high quality over a century of production, and within the Cluegg Group the Tocopilla factory won a numbers of Quality Awards both for the quality of the product and the professionalism of the workers—such as the 1996 *Cluegg Award* for the best Jam of Chile. The Tocopilla factory represents the 10% of the Cluegg production in Chile, and the workers employed in Tocopilla are around 100.

In approaching his strategic analysis by analyzing the situation of the Cluegg Group in Chile, Gray started by benchmarking the conditions of the 5 production factories owned by Cluegg in the country. His comparative analysis included elements such as the age of the factories, the production volumes, the quality of the jam and the amount of investment needed for planned maintenance and ad hoc interventions to keep up to date the production technology. As a result of this thorough assessment, Bob's conclusion was clear: by concentrating the whole production in 4 of its existing 5 factories in Chile, Cluegg might realize considerable cost reductions. The factory to be closed, in light of the assessment, is the Tocopilla factory. The physical and logistic characteristics of the old Tocopilla factory would, in fact, neutralize much of the benefits of new investments, despite the commitment and professional skills of the Tocopilla workers, clearly acknowledged by the Cluegg Group.

Therefore, the recommendation by Rob Gray to the Board is to close down the Tocopilla factory and move the whole jam production in Chile in the other 4 factories.

## **The Board decision**

22 September 2004. After examining the detailed assessment prepared by Rob Gray, the Board of Cluegg International decides to close the Tocopilla factory by 31<sup>st</sup> of December 2004, and move the production in the other 4 factories in Chile.

In the press release, the Board points out that:

*“...this is a difficult decision, but it became inescapable and cannot be delayed for the objective conditions of the Tocopilla factory, designed more than 100 years ago. The strong competition by the other international groups operating in Chile and other companies exporting in this country, require that Cluegg strives for adequate levels of efficiency in production, which the Tocopilla factory is not able to provide because of its objective limitations, despite the important contribution, commitment and professionalism proven by the people of the Tocopilla factory”.*

Moreover, the company states that *“Cluegg International intends to facilitate the industrial conversion of the Tocopilla area with respect the needs of the local community”.*

## **The reaction by the Tocopilla workers and citizens**

Despite the fact that for some time there had been some rumors of a sort of disregard by the Cluegg management with respect to the Tocopilla factory, nobody in the small village was expecting such a decision. The press release by Cluegg unleashes reactions of surprise, disbelief and bitterness among the workers and the inhabitant of the small and very unite community.

The decision by the Board seems to everyone as completely nonsensical: the jam produced in Tocopilla is of excellent quality, as demonstrated by the various award won—including the 1996 Cluegg Quality Award for the best jam of Chile. Moreover, the workers of the factory have proven over the decades their commitment and skills, and there has been no problem at all in terms of industrial relations with the local and the Group management. Finally, the factory, despite its old construction, has been operating without any problems and would, in the workers opinion, be made more modern and efficient with reasonable investment in new technologies.

For the social and cultural life of Tocopilla, the factory (and its local restaurant and shop) represent such a focal point, rooted in the history of the community and the memory of its inhabitants, that its closing represents not only a severe economic loss, but also the loss of a crucial part of the identity of the community itself.

The reaction of the workers, after the initial choc, is therefore instantaneous. They gather in a improvised assembly straight after work and, after a very animated discussion, agree to send to Cluegg’s Board a letter to express their complete disagreement with the Board’s decision to close the factory.

In synthesis, in their letter of 23<sup>rd</sup> of September 2004, the Tocopilla workers state that:

- *The decision by the Board seems not to be justified: the official motivation concerning logistic problems and limited efficiency of the Tocopilla factory do not justify the closing of a productive unit that over the past decade provided the Group with high quality and efficiency;*
- *Modest investments and organizational changes would be sufficient to generate productivity levels in line with those of the other Cluegg factories in Chile and America;*
- *The Tocopilla factory represents an activity of high professional, industrial, economic and social value, and of historical and cultural importance for its deep roots in the local community and surrounding territory.*

Therefore, the workers conclude that the closing of the factory is a decision “without a rationale” and point out how the closing would generate a enormous loss in economic, social and cultural terms for the local community,

A similar letter is sent to the Cluegg Board by the mayor of Tocopilla, who asks to the multinational to reconsider the decision taking into account the implication that the loss of 100 jobs would have for the small community of Tocopilla, besides upsetting the historical, cultural and social roots that makes of the Tocopilla factory an integral part of the town’s identity.

### **The reply by Cluegg International**

Maybe surprised by such a vehement and united reaction by the workers and the citizens of Tocopilla, the Board of Cluegg had to face the issues raised. After a careful re-examination of the economic and strategic analysis presented by Rob Gray, the Board agreed on the following final resolution:

- **To support** the validity if **the strategic plan** adopted, therefore **confirming the decision to close the Tocopilla factory** and the shift of production in the other 4 factories in Chile. The Board once again states that “*this is a difficult decision, made with a heavy heart, but the conditions of high competition in the international markets require the Group a strategy of resource optimization in order to safeguard its present and future competitiveness*”;
- **To commit** Cluegg to take care of a number of interventions needed to facilitate **environmental and site conservation** (such as putting in safe the factory’s machinery, maintenance works in the factory building and environmental management works), to facilitate the conversion of the productive area into other future utilization (for example, by transforming the factory in a museum);
- **To be open to dialogue and engage** with trade unions and the local government in order to find an agreement concerning the 100 workers currently employed at Tocopilla. In particular, Cluegg states its formal commitment “*search for an agreement that generates as little as possible complications for the workers of Tocopilla*”. The initial package that the Board brings to the negotiation table includes the following proposals:

- Offering to each worker of Tocopilla the option to keep her/his job in one of the other factories in Chile;
- Providing *Training Courses* in partnership with the employment centers in the region, to facilitate the search of a new job for those workers who do not want to move to another Cluegg factory;
- Creation of a '*early retirement scheme*': to the workers close to the retirement age, Cluegg will still pay the wage (with a little reduction) up to 6 years, in order to reach the retirement age;
- Offer of a *Exit-Bonus*: a numbers of ad hoc incentives (bonus) for those workers who choose to leave the company;
- Establishment of a '*Redundancy fund*': Cluegg offers to pay for up to 2 years a 'redundancy payment' that integrates the state unemployment benefit in such a way that unemployed workers will maintain exactly the same monthly wage that they were paid while working.

In this way, states the Board, Cluegg International fully demonstrates to be coherent with its business Vision.

In the words of Max de la Peña, Cluegg President for the American Region:

*“I believe that a business needs to be able to compete in the market in a dynamic way. To be a responsible corporation means as well to ensure your own sustainability in the long-run, and respect the local communities where you operate. The conditions offered to the Tocopilla workers, whose commitment and dedication are well acknowledged, prove how we respect our values”.*