

**Organized industrial relations in the information economy:**

**The German automotive sector as a test case**

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**Abstract.** This paper explores the effect of the information economy on industrial relations through the lens of the restructuring of German automotive sector. Historically, this sector has generated important insights about national “models” and the political economy of work. I argue that vertical disintegration has created new market-mediated boundaries that have undermined existing patterns of organized industrial relations.

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## **1. Introduction**

Increasingly, policymakers want to turn their countries into “information societies” or “knowledge economies.” Under the assumption that the world has, in some sense, become “boundaryless,” identities shifted, and place engulfed by a nebulous “space of flows” of finance, telecommunications, migration, and tourism, it has become questionable whether idiosyncratic, place-based social arrangements can survive. Can these trends co-exist with nationally particular and politically desirable levels of equality and social security (as Castells and Himanen, 2002 argue), or are they linked to global trends of welfare state retrenchment, union decline, and work intensification?

This paper explores part of this question through the lens of the restructuring of the German automotive sector. There are many reasons to expect that the changes associated with the information society would be mediated by tradition and institutions, and that old practices coexist with new ones as institutional “hybrids.” Large German export-oriented firms such as the automakers play a central role in domestic industrial relations. As one observer put it, “[n]owhere else has the German industrial relations system performed better than in the automobile industry, and no industry has in the past contributed more to the evolution of the system” (Streeck, 1992). The automakers still have the largest concentrations of union members and historically were important sites of post-Taylorist work reorganization projects and strikes for higher pay and shorter working time. Because of sectoral bargaining, workers’ participation rights, and unions’ willingness to back up partnership with contention, union power was “projected” from well-organized workplaces into the rest of the German economy (Thelen, 1991). This mattered for public policy: in the face of globalization, it

seemed that governments could promote equity and efficiency, and high wages and worker participation could enhance the performance of firms and nations (Streeck 1992).

Few, if any, observers of German industrial relations hold these views today. Since the early 1990s, German industry has seen a major rollback of old trade union gains. Autonomous subsidiaries, joint ventures, spinoffs, outsourcing, and temporary agencies have all created precarious, low-paid work in Germany that would have been impossible in-house (Hendrix et al, 2004; Doellgast and Greer, 2007). Workers at the firms that assemble cars have, in turn, faced neo-taylorite production standardization and corporate whipsawing practices, allowing the firms to lower the overall cost of producing a car (Springer, 1999), creating new dilemmas and problems for worker representatives (Doerre, 2002). The auto industry has not been an exception to the overall trend toward concession bargaining; in fact, concessionary agreements at the large automakers have been highly visible examples of this rollback. Surprisingly, these challenges to the German model have come not during a slump, but during a period of unprecedented productivity and employment in the auto industry.

Consensus exists that the German model is no longer what it once was, but the processes and causes of change remain subject to debate. Most writers view this change as a matter of decentralization, agreed to, and steered by, the state, unions and employers associations. Despite high labor costs, elites maintain this system, either due to the economic self interest of employers exploiting a “comparative institutional advantage” and pushing the growth of “complementary” institutions (Soskice and Hall 2001) or due to the tendency of society to take countermeasures against potentially harmful market forces, or “re-embed,” economic activity (Streeck and Thelen 2005). Other writers, following Lash & Urry (1987), view change as disorganized, basically outside the control of the industrial relations system and its actors, with a tendency to introduce market regulation, and weaken the authority of industrial relations norms, in more and more areas (Doellgast & Greer 2006).

Complementarities, re-embedding and disorganization are the three basic interpretations that will be operationalized and assessed below using the case of the German automobile industry.

This paper will focus on the interaction between the trends toward vertical disintegration of corporate structures and the erosion of German industrial relations institutions. Vertical disintegration usually means the creation of new intermediate markets within a production process that was previously carried out within a single organization (see Jacobides 2005: 465). In the auto industry, this includes the establishment of new subsidiaries and joint ventures, the outsourcing of production and support services to third parties, and the outsourcing of staffing to temporary agencies. These firms collaborate not only in manufacturing, but also in design and other production-related services, which usually requires extensive synchronization between the assembler (the Original Equipment Manufacturer, or OEM) and contractor (Jürgens 2003). Vertical disintegration is intimately bound up with the compression of state and time: new information technology systems accelerate information flows across firm boundaries, and just-in-time logistics techniques do the same for parts. In Germany, it is debatable how this blurring of firm boundaries affects the institutions of industrial relations. Institutional theory tends to emphasize stability; I will argue below that vertical disintegration has had deeply disruptive effects.

This paper begins with an overview of the German industrial relations system and the theories that it inspired. Then it describes vertical disintegration and the disorganization of industrial relations in the automotive sector, focusing on three companies and some of their contractors.<sup>1</sup> It concludes with a critical assessment of institutional theories of in the light of the empirical material.

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<sup>1</sup> These case studies are based on 79 interviews with 63 interviewees from late 2003 through early 2007, as well as documents, mainly collective agreements, newspaper articles and consultants' reports gathered in the course of field research. In each of the three cases, I spoke to OEM works councillors, supplier works councillors, local IG Metall full-time officials, and managers. Where possible I also spoke to outside experts, union dissidents, union full-time officials representing workers in support services, staff of local Gesamtmetall affiliates, and managers at suppliers. Most of these interviews took place in the Cologne and Stuttgart areas and in South-Eastern Saxony.

## 2. Coordination and disorganization

In an era of globalization, why do industrial relations scholars believe in national models? Why not accept that within-country diversity is at least as great as between-country variation, and that national policies are as likely to work in tension with one another as they are to work as an integrated whole? Research on Germany from the 1980s played an important part in cementing the nation-state as a unit of analysis, for some good reasons.

Scholars have long described the German pattern of industrial relations as a “dual system.” Unions and employers bargained sector-level framework agreements stipulating guidelines for wage minima, hours and other conditions of work. The automotive assemblers and most of their suppliers were covered by the metal and electrical industry agreement, which also covered aerospace, shipbuilding and various other manufacturing industries. The union *Industriegewerkschaft Metall* represented workers at this level; its counterpart was the employers association *Gesamtmetall*. These national social partners worked with local- and state-level affiliates to bargain a national framework of bargaining for the metal and electronics industries, which included OEMs, most large auto parts makers, and a wide range of other manufacturing industries. Within the firms, works councilors bargained specific regulations, for example over pay scales or working-time arrangements, to implement the sectoral agreement. Firms that belonged to the employers association were required by law to abide by the agreement as a minimum; according to a statutory “*Günstigkeitsprinzip*,” however, management and works councilors would negotiate improvements, such as shorter hours or higher pay. The agreement would cover everyone in a firm to which it applied, including service occupations, such as cleaners, cooks, and drivers. Works councilors abided by the agreement not only for legal reasons, but also because they identified with the union and used training and other support services provided by the union. Employers abided by the agreement, because they feared industrial conflict, they wanted to attract and retain a

committed and qualified workforce, and they relied on the support services of the employer association. As firms became more productive, workers and managers – especially in the OEMs – negotiated wage increases above the sectoral agreement, known as *übertarifliche Leistungen*, or over-tariff payments. The German auto industry of the 1980s thus saw mutual gains on a massive scale and attracted much attention from the U.S. and U.K., especially among academics seeking ways to improve national competitiveness.

Over the past 20 years, however, the model has changed. For example, an increasing range of topics have to be negotiated at the firm or workplace level. Already in the wake of the 1984 strike, a national agreement to reduce the work week to 35 hours led to thousands of agreements for more flexible working-time arrangements. Gesamtmetall and IG Metall likewise introduced “opening clauses” in the 1990s to give works councilors and managers the ability to negotiate cost savings without leaving employers’ associations. These agreements required the approval of the union and employers association, as well as evidence of economic difficulty at the firm. Most works councilors remained affiliated with unions and large companies remained affiliated with employers associations; decentralization was therefore not seen as a serious threat to the logic of the system. Scholars called this kind of centralized control over change “coordinated decentralization” (Traxler, 1995).

It is these mechanisms of coordination that have begun to break down. Although union membership among works councilors remains high, union density in the workplace as a whole has declined dramatically, from above one third in the 1980s to less than one-fifth today. This loss of membership has made it increasingly difficult for unions to strike and bargain for improvements and set the stage for IG Metall’s bruising defeat in East Germany in summer 2003. Employers associations have established subsidiaries that offer services without the requirement that they pay according to the agreement. In regions with tight labor markets and strong unions (like the Stuttgart area), employers remain bound by the agreement

in order to attract employees with high wages and to avoid industrial conflict. Elsewhere (like East Germany), as one secretary at a local employers' association office told me, those that remain bound to sectoral agreements do so merely out of tradition. The labor market justification has become irrelevant due to high unemployment, the labor peace argument has been undermined by a decline in union membership, and the issue of tradition has grown less important with the proliferation of new firms. The vertical disintegration of the German corporation has made it possible for managers to redefine parts of the work process, to shift work into cheaper agreements in other sectors, with weaker unions and lower pay (Doellgast and Greer 2007).

One sophisticated variant of this line of reasoning is the thesis of *disorganization* formulated by Lash and Urry (1987). While institutionalists have argued that the overall trend in capitalist organization differed between Germany and the English-speaking world, Lash and Urry argued that encompassing institutional structures and national coordination of industrial development and wages were collapsing throughout the capitalist world. Although it had happened first in the UK and US, they also described disorganization tendencies in Germany and Sweden. It was just a matter of time, they argued, as globalization, the rise of finance capital, the decline of class-based politics and the growth of white collar and service-sector work proceeded. The prediction was that some of the changes ascribed a decade later to the information society would be part of a broader trend toward institutional disorganization that affected industrial relations.

The answer of institutionalists to this challenge was to acknowledge change, stress its incremental character and assert that the industrial relations system was flexible enough to remain relevant. There is not enough space here to cover the vast amount of work on this subject, but two arguments stand out as theories of institutional resilience: *complementarity* and *re-embedding*. The *complementarity thesis* is the basic causal argument in the “varieties

of capitalism” framework. It posits that it is not in employers’ interests to abandon national institutions in Germany, partly because it would antagonize organized labor, but more importantly, because it would undermine their ‘comparative institutional advantage’, such as vocational training and corporate governance (Hall and Soskice, 2001). In German industrial relations, the central bit of evidence for this is the competitiveness of export-oriented industries such as auto and machine tool manufacturing, despite adhering to the high wage levels written into metal-industry collective bargaining. Whatever the social relations or political pressures, the product strategies of German automakers should, according to this theory, prevent them from undermining sector-level collective bargaining.

The *re-embedding thesis* is an attempt to overcome the functionalism and implied conservatism of “varieties” and deal with observed change. It suggests that liberalization is happening, even in Germany, but it is “re-embedded,” as society places limits on market relations. The claim is not just that market rules differ across countries, because they are embedded in other social relations, but, following Polanyi, that a dynamic process is underway whereby society seeks to re-regulate. “Liberalization always comes with, and is enveloped by, all sorts of countermeasures taken by society – or respective societies in line with their respective traditions – against the destructive effects of ‘free’ self-regulated markets” (Streeck and Thelen, 2005: 4). Regulation here comes from outside the economic system, from unions, parliaments or regulators, and can violate the logic of intensified competition or of employer strategies. In German industrial relations, the most important piece of evidence for this mechanism is the difficulty employers had during the 1990s in rolling back the past gains of the labor movement. The main reason they were unable to make major gains was that managers of large, capital intensive firms feared industrial conflict. This paralysis on the employers’ side served to keep the basic German model intact (Thelen and



Kume, 1999); later, the model remained intact within the large firms, “underwritten” by the “breaking off of more peripheral sectors and firms” (Thelen and Kume 2006).

Change in German industrial relations has thus led to revisions in, and challenges to, institutional theory. Whether the independent variable is business strategy or societal effects, the dependent variable has become institutional development itself; in theory, institutions remain the mediating variable between actor strategies and the economic environment, on the one hand, and workplace change, on the other. The term “institution” has a wide range of meanings, but generally means the “rules of the game.” Under Streeck and Thelen’s definition, rules are only institutionalized when they are enforced by third parties under the threat of sanctions. For example, “in a country with an institutionalized right to collective bargaining, an employer who turns his shop into a union-free environment will be reproached not only by the unions he has locked out, but also by the courts. . .” (Streeck and Thelen, 2005: 10). Partly because of the gap between the “ideal pattern of a rule” and the “real pattern of life,” they argue, institutions have a way of changing, apparently without losing their obligatory character.

### **3. The German auto industry: good performance and institutional change**

What *has* changed in German auto plants? One important development has been the rise of in-firm pacts. It has become standard practice for automakers to demand, and win, concessions in collective agreements in exchange for investment (for overviews of evidence on German firm-level pacts, see Rehder, 2002; Massa-Wirth and Seifert, 2004). These concessions need not violate sectoral agreements, and at automakers they tend not to. Considerable leeway for this exists at automakers because of a long history of upward wage-drift, and eliminating above-tariff payments has yielded considerable savings for employers. These agreements can also regulate the use of agency temps and the outsourcing of services,

either allowing outside firms to bring in lower paid groups of workers or reducing the pay of support staff below the level allowed by the metal and electronics agreement. Outsourcing arrangements do not necessarily entail the derecognition of the union as a bargaining agent, because the work can be redefined as in a different industry, where a different agreement applies. Working hours are another source of savings. Firms win agreements to extend working hours or eliminate holidays in order to ramp up production without having to pay overtime or hire new workers. The use of teams in assembly work and continuous improvement (Kaizen or waste elimination) elsewhere is spreading and are often standardized through a “production system” like the Mercedes Production System. These enable systematic comparisons of processes and performance and facilitate the extension of market logic into new areas of corporate management (Brinkmann and Doerre 2006).

This rollback has not come during a crisis, but rather in a boom period. Unlike the British and Italian auto industries, which have lost considerable market share during the 1990s, the German industry recovered from the crisis of the mid-1990s quite well. German market share in the European market has not gone below 39% (calculated as a percentage of registrations in the EU) since the late 1980s. This has meant an expansion, not only in the number of cars produced, but also in employment, a remarkable achievement given the pervasive “waste elimination” practices. While overall manufacturing employment has dropped by 10.2% since 1995, automakers have added jobs, mainly white-collar jobs in design and administration. While auto industry employment is roughly the same as at the last boom (1988-1991), productivity improvements have increased the number of cars assembled to unprecedented levels (Statistisches Bundesamt 2006).

The industry is thriving and most of the large firms are profitable. Why, then, have the trade unionists who lead the works councils accommodated management’s demands for concessions? The country’s high level of unemployment – in September 2006, 10.1%

nationwide, 8.5% in the west and 16.4% in the east (Bundesagentur fuer Arbeit 2006) – has been one reason. Success in manufacturing has not translated into overall economic well-being, and local IG Metall offices have been reluctant to discourage concession bargaining in cases where union members' jobs are at stake. In multinational firms, a further problem is the growth in capacity without the expected development in demand; this has hit Opel and VW especially hard, since they embarked on ambitious expansion programs beginning in the early 1990s. These companies have more manufacturing space than they can use, and therefore can negotiate concessions either through explicit threats (as at Opel) or through detailed consultations backed up by implicit threats (as at VW). The growing importance of price-based competition has also not helped; in a world where luxury cars are made in Hungary, the notion of production niches made possible by high wage and skill levels seems obsolete. The threat of disinvestment has become more plausible, even as automotive employment in Germany has increased. Lastly, competition between the domestic OEMs has intensified, even in the luxury car market. BMW, Porsche, Audi and DaimlerChrysler have all embarked on expansion programs, leading to growing production capacities, explicit comparisons and coordinated demands from employers (Greer and Hauptmeier, 2008).

Vertical disintegration has exacerbated all of these problems, because it has created a wedge between groups of workers in different firms, mainly in order to reduce costs:

The reassignment of work to an establishment with a different collective agreement (or no agreement) contributed to an increasingly complex mix of firm, sectoral and occupational bargaining structures in each industry. This made it more difficult for worker representatives to co-ordinate across locations and easier for employers to introduce variation in pay and working conditions for different groups of workers. All of the companies we examined successfully cut costs across their production chain through outsourcing work, spinning off subsidiaries, or contracting with temporary agencies (Doellgast and Greer 2007: 70).

This is not to say that firms break up their structures with the intention of weakening unions. The top reasons manufacturing firms give for outsourcing is cost reduction, enhanced

flexibility, coping with over- and under-capacities and acquiring new technology (Kinkel and Lay 2003). Nevertheless, contractors are less likely to be covered by a collective agreement or works council than the firms that put work out to bid (Hendrix et al, 2004).

**Table 1. Changes in production depth (value added as a share of production value)**

Company	VW (K)	AUDI (K)	DAIMLER (K)	OPEL (U)	FORD (U)	PORSCHE (U)	BMW (K)	Total
1989	42.6	a	50.9	39.3	33.2	39.3	42.6	41.3
1990	40.5	A	49.7	38.7	33	39.2	43	40.7
1991	38.4	A	49.8	35.9	31.3	43.1	43	40.2
1992	35.8	A	51.3	34.2	33.3	48.4	43.2	41
1993	37.9	A	48.2	33.3	34.5	43	43.9	40.1
1994	39.7	35.2	45.9	33.6	34	42.9	42.9	39.2
1995	40.8	34.1	40.5	31.3	32.2	46.2	42.1	38.2
1996	38.5	33.8	42.3	30.7	28.4	48.2	41.4	37.6
1997	39.8	33.9	B	29.6	25.5	47.5	40.8	36.2
1998	37.2	31.2	B	29.3	26.7	49.7	b	34.8

Source: IG Metall - Balance-sheet data bank, K = group (*Konzern*), U = company (*Unternehmen*), compiled in EIRO 2000. (a) included in figures of Volkswagen; (b) turnover costs not available

OEMs in the auto industry have several ways that they vertically disintegrate: they outsource production and design of components to contractors; employ firms to carry out support services inside the plant; use temporary agencies to recruit and employ workers in core manufacturing processes; create autonomous organizations, like subsidiaries or joint ventures, in new business areas; and turn existing components plants into independent spinoff firms or joint ventures. It is not that big companies are being broken up into small companies; instead, multinationals are emerging to partner with the OEMs Europe or worldwide. The new firms are not just manufacturing simple parts; some are large firms delivering sophisticated subassemblies (or “modules”) and taking on complex service functions like design (Jürgens 2004). Over the 1990s, there was a nearly universal trend toward vertical disintegration among the OEMs, with average production depth declining from 41.3% to 34.8% (see table 1). Since then, as we will see in the cases below, this trend has continued.

### **3.1 VW Sachsen: a turbulent East German “domestic transplant.”**

VW Sachsen is the East German subsidiary of VW, established in the industrial valleys of Southwestern Saxony shortly after the fall of the Berlin wall. Ulrich Jürgens (1998) calls it a “domestic transplant,” because VW used it as a pilot plant to try out new techniques of supply-chain management and team organization, in hopes of achieving greater productivity than in the west. VW Sachsen was established as East German industry on the sites of a vertically integrated, monopolistic “combine” established by the German Democratic Republic to manufacture cars. VW located its production on two sites where the old *Trabant* was made (an assembly plant and an engine plant), and sought an unprecedented degree of flexibility by outsourcing services and production and using agency temps. The firm’s policy was to demand that suppliers locate within 12 kilometers of the assembly plant in Zwickau. As a result, this town of around 100,000 residents became one of the few places in the east to actually see an expansion of manufacturing employment after the mid-1990s. As the company ramped up production, employment at the subsidiary slowly increased to above 7,000 employees. As VW Sachsen developed, however, a series of problems emerged.

VW’s sourcing practices in Zwickau created a major insider-outsider problem between union members in the well-organized OEM (where union density is between 60% and 70%) and the poorly organized suppliers. Rather than abiding by the wages in the west, which were high by West German standards, VW Sachsen abided by the local sectoral agreement, with its lower pay and longer working times than the core workforce in Wolfsburg. Furthermore, workers at in-plant contractors were no longer paid according to metal industry wages, but rather according to a patchwork of sectoral and in-plant norms. The OEM complicated things further after 2000 by establishing Autovision, a temporary agency touted in the west as a way to find opportunities for the unemployed. In Saxony, Autovision has two segments: one that

supplies workers to its own plants at the same wages as VW workers and another that supplies workers at lower wages to other firms, often in VW's supply chain.

In the late 1990s, VW changed its policy of demanding that suppliers produce in the region. In order to reduce costs, the company asked suppliers to move considerable amounts of work to lower-cost countries, such as the nearby Czech Republic. VW further strengthened its business case for outsourcing and switching suppliers by creating its own supplier subsidiaries, such as VW Borgnitzer, that competed with outside suppliers based on lower Central and Eastern European labor costs. Although the OEM still demanded some local production capacity, some suppliers began maintaining little more than a warehouse in the region, to receive deliveries from Poland, the Czech Republic or Romania and send them on to the customer. For IG Metall members at local auto suppliers, this created a serious job security problem.

VW management argued that it needed the cost reductions to maintain local employment, and the OEM's works council had little incentive to assist their colleagues fighting layoffs. Indeed, worker representatives had no alternative plan for VW Sachsen. Works councilors at the contractors, feeling this squeeze, noted in interviews that they understood the behavior of the works council at the OEM, since the jobs at VW depended on low costs. With problems aplenty in the core, it was hard even for the affected workers to imagine how VW's works council could provide meaningful support.

The core-periphery tension became painfully clear in the case of a German firm, Dräxlmeier, which supplied wire harness subassemblies for the Passat. With the model changeover in 2003, VW put the work out to bid, meaning that the jobs of workers at the incumbent companies depended on their employers' ability to provide the lowest bid. Dräxlmeier lost the bid to VW Borgnitzer, then a fully-owned subsidiary of VW with production in Germany, Poland and Romania. The mostly female Dräxlmeier workforce

mounted a public campaign to keep their jobs. Although they won some support from the local IG Metall and local politicians and boosted IG Metall membership in the workplace, VW stood by its decision, and the plant closed. According to works councilors two years after the closure, some of Dräxlmeier workers had been shifted into Autovision, others remained unemployed, and some found work directly employed in other factories, mostly at lower wages.

The outsourcing of services has created similar difficulties for the union and works council. Not only can the OEM switch contractors, but vertical disintegration blurs the jurisdiction of unions and creates multiple works councils in the production process. Problems emerged in the Chemnitz engine plant in early 2005, when VW switched logistics providers, from the Dutch firm TNT to the Wolfsburg-based Schnellecke Group. The new employer attempted to lay off the incumbent workforce and replace it with agency temps from Autovision. With legal support from the local DGB and the services union ver.di and moral support from VW works councilors, the workers sued the new employer, charging violations of federal transfer of undertakings rules. In the settlement that followed, Schnellecke paid each worker €4200 back wages and rehired 120 out of 142 core TNT workers, albeit with reductions in the base wage from seven to six euros an hour.

The use of temporary agencies has also created problems for worker representatives, even though they are paid the same as core workers (though only if they are doing the same work as VW Sachsen employees). Management has wanted a numerically flexible workforce in order to respond to rapid swings in demand. This has been especially important at the engine plant, which has to respond to the demand for vehicles at various assembly plants. Agency temps, in principle, enabled management to do this, since they were easier to lay off than core workers; the problem for the works council was that the precariousness of their position made them more difficult to represent. Second, because of high unemployment and

the prospects for being taken onto the “core team,” [*Kernmannschaft*] their incentives to work harder are much greater than those of core employees. This allows managers to use the discretionary effort of temporary employees as a justification for work intensification. It was not until 2003 and a change in the works council leadership, that the company actually agreed to limit the number of agency temps to 140 in the engine plant. Although the limit was reached over the objections of local management, a 2005 works agreement increased it by 50.

Despite strong union organization, the VW Sachsen works council has also been unable to fend off concessions in the core. Since 2003, unionists have faced a series of setbacks, which have shaped bargaining policy. The summer 2003 metal industry strike was especially difficult for trade unionists, since it was widely opposed by the local media and political establishment and publicly criticized by IG Metall works councilors in the west, who faced production stoppages in their own plants due to shortages of parts from Eastern suppliers. The 2004 concessions at VW in West Germany and the Dresden plant (which was established later and is not part of the subsidiary) put further pressure on local works councilors, who had previously enjoyed cost and flexibility advantages over the West. In 2005, the works council agreed to €50m in concessions, including the elimination of several days off and delays in the implementation of a new sectoral agreement.

In German industrial relations, the development of the east has been a major source of uncertainty and a major object of study. A central part of VW’s strategy has been to increase the degree of outsourcing and use of agency temps. These workers are paid according to a wide range of different agreements, including standards mirroring the core workforce (at Autovision Produktion), cheaper sectoral agreements (at Schnellecke and most of the other service providers, as well as their temporary agencies), house agreements and no agreement at all (as at the service providers at the Dresden plant, which also lack works councils). Weakened by a lost strike, concessions to the west, opportunities to shift work east, and the



uncertainty of their employers' relationship with the OEM, workers at VW Sachsen and its supply chain are further than ever from establishing classic German labor-management relations in their firms.

### **3.2. Ford/Visteon: patchwork regulation in the West.**

In the 1990s, Ford was the least vertically integrated of the OEMs. In 1998 it made its structure even leaner by spinning parts plants (including three in Germany) off into a new company, Visteon, and spinning three transmission plants off, including one in Cologne, into a joint venture called Getrag Ford Transmissions (GFT). Furthermore, in the 2001 remodel of the Cologne plant, the company created an “industry park” for suppliers to deliver and pre-assemble modules. Visteon was the most problematic of these projects, since it lacked a coherent business plan. The result was a set of deep concessions negotiated in 2003 to reduce costs throughout the system, including the massive use of outsourcing in service areas and the use of temporary agencies, and further concessions in 2005 under the threat of bankruptcy. GFT went more smoothly for workers, since it was focused on a single product and involved a viable plan to combine the mass-production manufacturing capacity of Ford with new technology supplied by Getrag. The industry park is somewhere in between. Although unions are well organized there, there is a persistent tension between the OEM's works council, who would like to have the work brought back in-house to employ core workers, and the works councilors in the supplier park, whose constituents are threatened by this.

In early 2000 the works council negotiated a deal to shield Visteon workers from possible layoffs. At the time, Ford was restructuring its European operations by closing, outsourcing and spinning off operations, while increasing the number of models. Worker representatives, led by Wilfried Kuckelkorn, the chair of both the central (German) works council and the European works council, accepted restructuring on the condition that they

could bargain over its effects at the transnational level. Visteon was the first test case of this strategy; in the following years, international agreements covered spun off transmission plants in the three countries and a further restructuring at Visteon known as the “Plan for Growth.”

The European spinoff agreement established a framework for negotiations at the national level. Unlike the Visteon agreement in the US, under which employees retained their status as Ford employees, the European agreement stipulated that workers would either exercise flow-back rights to Ford or become employees of the new company. Those who stayed would retain the same level of wages and working conditions as those at Ford for the rest of their working lives. Worker representatives also negotiated a catalog of parts that Ford would continue to buy in contractually stipulated volumes from Visteon until 2007. The agreement covered the largest of Visteon’s 26 European plants, including three of Ford’s five plants in Germany (Berlin, Wülfrath and Düren), one in France (Bordeaux) and four in the UK (Belfast, Basildon, Enfield and Swansea).

In Germany, the spun off plants accounted for nearly 4000 of Ford’s 34,000 workers. The national-level agreement allowed the company to eliminate over-tariff payments for new employees, who would be paid the minimum allowable by the sectoral agreement. Like in the U.S., new plants were left out of the bargaining unit. This latter point was crucial, since Visteon expanded more aggressively in Europe than in the U.S. In future iterations of Europe-level bargaining, newly purchased plants, such as French and Italian plants purchased from Plastic Omnium, would remain outside the scope of European-level bargaining. Newly constructed gas tank plants supplying VW in Mosel and Emden – which had very few Visteon employees – were entirely outside the scope of the works council’s jurisdiction, and works councilors only found out about them through their role on the firm’s supervisory board.

In 2003, managers and worker representatives were disappointed with the performance of the company. As works councilors nervously approached the expiration date of the parts

catalog, dependence on Ford was still 70% or higher at all three plants. Without the improvements in business, German unionists, in cooperation with colleagues in France and the UK, approved a second round of restructuring, the “Plan for Growth.” In exchange for investment, worker representatives accepted measures to reduce costs by €140m a year. The European-level agreement stipulated the amount of savings to be had in each plant, through massive personnel reductions, a shift towards use of agency temps and increased outsourcing. This shift of work out of the company had a similar effect as the two-tier wages in the U.S., since the outsourced and temporary workers worked under sectoral collective agreements for services paying below the metal agreement. With considerable hesitation, but little resistance, worker representatives supported the company in hopes that it would grow up to become a global player in the auto supply business.

In Germany, labor and management hammered out plans to restructure the workplace at the three main factories. The most problematic plant manufactured plastic parts, mainly dashboards, in Berlin. Established in 1981 on the edge of West Berlin as a cold war *Prestigeobjekt* for global management, 99% of the plant’s work was for Ford, and the plant was losing €30m a year. In order to save €25m a year, the works council agreed to downsize the core workforce from 630 workers to 340 at a plant that had once employed 1,300 people. They closed one of the paint shops, eliminated extra pay for Saturday work, implemented a new cellular work design (without work groups, which local management opposed), reduced pay for some classifications of workers, outsourced logistics work (to TNT, which lacked a works council locally and paid €9 an hour) and employed 150 temporary workers as a semi-permanent cost-cutting measure. The plant saved a further €1.3m through a new lease with Berlin’s government, which owns the industrial park; this agreement sent a signal to the region and the workforce that the location would be there on that site until 2014. Under a government-funded active labor market scheme, known as a *Transfergesellschaft*, 60 out of

120 workers who sought new jobs succeeded, primarily in the local metalworking industry. Core workers did not go into lower paid jobs in the plant; given unemployment rates in the high teens, works councilors viewed a placement rate of 50%, mainly in the local metalworking sectors, as a success. By 2005, the plant was breaking even.

In 2005, however, the company brought its American restructuring strategy to Europe. Managers told worker representatives that the company was still not competitive enough and needed to make further cuts. Global management had narrowed their idea of the firm's core competencies, and the continuing inability of these plants to win business outside of Ford remained a major handicap, especially as the parts catalog was expiring. They reached a new agreement with further personnel cuts and extending wage concessions to the core workforce, this time at the national level, like in the US, under the threat of bankruptcy. In 2006, Visteon sold two of its main plants to the Munich-based private-equity firm Orlando.

Not all vertical disintegration has gone badly at Ford: the 2001 spinoff of transmission production in Cologne into GFT went relatively smoothly. The concessions attached to the investment guarantees were relatively minor, and like at Visteon there was a framework deal agreed to cover plants across Europe. The main problem was variation between former Ford and Getrag employees and new employees; the workforce was covered by three different collective agreements. However, the success of the business has taken pressure off managers to demand further concessions. Unlike Visteon, the new company is focused on a single product market, with an infusion of new technology, and therefore lacks the uncertainty about "product palettes" in the plants.

However, the case of Ford shows how disorganization was not unique to the east. Ford, the most vertically disintegrated German OEM in 1998, continued to spin off parts production, creating increased insecurity for its entirely West German workforce. The fate of plants has come to depend on their ability to compete on outside markets for the parts they

produce, rather than a strategic role to secure supplies for the OEM. In the unsuccessful spinoff, Visteon, concessions have been much deeper than Ford, including massive in-plant outsourcing and use of agency temps as a semi-permanent measure to reduce costs. Some of the bargaining has been quite innovative, such as the EU-wide restructuring agreements, and it has not produced uniformly bad outcomes for workers, as the GFT story showed. However, the trend toward disorganization is clear. In Ford's value-added chain, the bargaining scene is a patchwork of different firm-level and sectoral agreements (the supplier park), adherence to the minimums of the metalworking sectoral agreement (pre-breakup Visteon), norms that mirror Ford (GFT) and a patchwork of low paying sectoral agreements (the temporary agencies and service providers in the Visteon plants).

### **3.3. DaimlerChrysler: concessions as the alternative.**

As table one shows, Daimler-Benz has traditionally been the most vertically integrated large German automaker, and it remained so after its 1998 merger with Chrysler. Although the degree of outsourcing varies from plant to plant, it has major production facilities for large “aggregate” parts, such as transmissions and engines that other companies buy largely from the outside. Works councilors do not report systematic attempts to create low-wage work in the supply chain, like at VW Sachsen, but examples do exist; in the three years after the company established an International Framework Agreement stipulating that suppliers should respect core labor standards, five out of the fifteen violators of union rights were workplaces in Germany (Greer and Hauptmeier 2008).

Because of the high degree of vertical integration, outsourcing is a large, untapped source of savings for Daimler's management. In 2005 bargaining for a works agreement, the company won a projected €500 million per year savings. The company's strategy included whipsawing, threats of outsourcing and disinvestment, demands of concessions that would

violate the sectoral agreement, and talk of a Baden-Württemberg-specific “sickness,” in a region once known as the model region, the *Musterländle*. A nation-wide mobilization ensued, with demonstrations and letters of solidarity from foreign plants. The works council negotiated a complex set of concessions that reduced the amount of pay that new workers would receive above the sectoral agreement and made some allowances to get around the provisions of the agreement. It included a series of pay concessions for new workers, reduction of the guidelines for annual wage increases, new wage tables equalizing pay between white and blue-collar workers, and greater management discretion in shifting workers between plants. While the current workers would be protected from cuts, the future workforce would be deeply divided, and pay depended not only on the worker’s job and number of years of service, but the date of hire in relation to the implementation of the new wages and whether he or she was in a “core” job or one that was easy to outsource. In exchange, the company agreed to a list of location-specific investment guarantees. It also agreed to avoid any new outsourcing services until 2012 and to discuss possibilities of “in-sourcing” using the new pay grades, oriented on the lower pay structures of the service sector.

One of the more painful provisions of this agreement – wage concessions in support services – was a direct result of vertical disintegration. Management viewed these areas as especially easy places to make cost savings, due to the growth of the outsourcing industry and piecemeal plant-by-plant experimentation. The agreement opened the door for plant-specific negotiations over wage concessions to reduce the pay in indirect work areas (security, cafeteria, cleaning, maintenance, etc.) by 20%, i.e., below the level of the metal industry agreement. The agreement also contained working time increases in these areas.

Although managers at Daimler usually seek to keep production work in house in order to control quality, there are exceptions in their collaborations with other firms. Daimler’s first experiment with vertically disintegrated manufacturing was in its Smart subsidiary in the late

1990s, an experiment in “fractal” manufacturing in Hambach, France, near the German border. This was a much deeper form of outsourcing, since parts suppliers were actually involved in building their parts (complex subassembled “modules”) into the vehicles. The firm continued the concept in a new engine plant, opened in 2004 in Koelleda, in East Germany. The plant was a joint venture with Mitsubishi, which made engines for small cars assembled in Japan (for Mitsubishi) and the Netherlands (for smart). The Koelleda project resembled the VW Chemnitz engine plant, in that much of the on-site workforce was not employed by the core company, the workforce was planned to be roughly the same size, and provisions were made to deal with fluctuations in demand (while VW-Chemnitz used agency temps, MDC power used working time accounts). Nevertheless, employment gains were contingent on the success of a new vehicle, the four-door Smart car, which did not sell well. In 2005, take-home pay was reduced and work time extended in order to pay back hours into the working time account, and 70 out of only 270 workers were shifted to Mercedes plants in Kassel and Berlin as temps employed by an internal agency. To add to these problems, only 30% of the workforce are IG Metall members (although the core works council is completely unionized), and only one of the on-site service providers had a works council. The plant’s future is made even less secure by competition with the engine plant in the Untertuerkheim complex in Stuttgart, which makes the diesel version of the same motor. Because Untertuerkheim was part of the 2005 pact, it has investment guarantees lasting until 2011 that MDC Power lacks.

Even at a company known for making rather than buying its parts, vertical disintegration has put downward pressure on wages. In newer, smaller parts of the company, hived off as subsidiaries, management has experimented with vertical disintegration. Although outsourcing is not as deep or systematic in the older plants, the workforce in support services *has* been hit by the industry-wide trend to vertically disintegrate. While management

agreed to a 7-year moratorium on new service outsourcing, it has only done so under an opening clause for wages and extended working times for in-house services. Although DaimlerChrysler may have some similarities with “coordinated decentralization,” this has given the workforce few reasons for celebration. Even at a firm where worker representatives have found alternatives to outsourcing, we still see examples of unregulated work (in the service providers in Koellada, for example). Despite strong union organization in the firm as a whole, the disorganization elsewhere has set the overall direction of change.

#### **4. The findings: disorganization and market**

Why has there been a rollback of working conditions in the auto industry taking place in a context of unprecedented prosperity and (numerically) strong union organization? The breakup of vertically integrated production organization, enabled by the compression of time and space in the production process is an important part of the answer. Practices of sectoral bargaining and codetermination are not designed to override these market mechanisms that divide the labor force.

The effect of vertical disintegration on industrial relations is as clear in the west as it is in the east and matters as much at volume producers as at luxury producers. VW Sachsen is an early example of a local production system set up in post-unification East Germany to be flexible and to rely extensively on contractors, for parts and services, inside and outside the plants. Unions and works councils have not been able to defend metal-industry standards in these areas, partly because of VW’s increasingly cutthroat procurement policies, partly because much outsourced work is no longer inside IG Metall’s jurisdiction, and partly because VW’s works councilors (and therefore local full-time union officers) accept the need for keeping costs down. In the West, Ford has in some ways gone even further, by spinning off existing parts plants and forcing dramatic concessions from workers in those plants that do



not find business at other OEMs. Even in relatively stable parts of the supply chain, workers are paid according to a patchwork of firm- and industry-level agreements. Even at Daimler, a luxury automaker with a high degree of vertical integration, the threat of outsourcing has led to worker-side concessions, to the tune of €500 million a year, and Daimler is also experimenting with outsourcing in newer, smaller plants.

While change is in the air everywhere, it plays out differently in different settings. Two dimensions of variation in our sample help to explain varying degree of pressure on worker representatives: (1) the employers' economic success (ability to win and retain enough business to avoid layoffs) and (2) the establishment's location in the industry's power structure (OEM vs. supplier) (Table 2). As the market situation changes, establishments can move up or down; they move left to right if they are spun off or outsourced. The OEMs have mostly moved from crisis to competitiveness over the past 10 years. Variation between plants seems to make less of a difference in this column than change over time, because trade unionists have come to accept concessions even at competitive firms like DaimlerChrysler and VW Sachsen. A growing percentage of the process of making a car, however, has moved out of the core and into the right-hand column, where jobs become contingent on the employer's ability to win and keep contracts with the OEMs. Establishments with a viable business plan, like GFT, manage to maintain some continuity with past practice; otherwise (i.e., Visteon and the suppliers of VW Sachsen), deep concessions or mass layoffs are to be expected.

<b>Table 2: the cases compared</b>			
		Position of establishment in the industry's power structure	
		OEM (strong)	Supplier (subordinate)
Economic viability of establishment	Competitiveness	<i>DaimlerChrysler, VW Sachsen:</i> continued concessions, reorientation of pay of new workers at the sectoral agreement	<i>GFT:</i> continued application of sectoral bargaining, not much divergence from OEM
	Crisis		<i>Visteon, TNT/Chemnitz and Draexlmeier/Zwickau:</i> cutthroat, price-based competition; concessions below the sectoral agreement and layoffs.

As Jürgens, Krzywdzinski, and Teipen (2006) point out, the problem in this sector is not the wholesale individualization of employment regulation. The problem is that, though the holes in bargaining and works council coverage remain small, the coordination mechanisms are breaking down. If they were functioning in the sense of the traditional dual system, outsourcing would have little effect on industrial relations. Unions and employer associations would continue to represent workers in the new areas after they were outsourced, and savings in wages through vertical disintegration would not be possible; instead, savings might come through improved flexibility or investment. If a plant closed, workers could move on, with their transferable skills and *Beruf* (occupational calling) to another establishment with similar wages and working conditions. In reality, workers fear unemployment enough to make concessions, and the union is usually willing to support them. These fears are reinforced as their jobs become contingent on the OEM's willingness to renew contracts and the success or failure of a specific vehicle. In some of these areas, industrial relations practices barely satisfy Streeck and Thelen's definition of institutionalization: in the domestic supply chains of all three of these companies, firms operate with no collective bargaining or works council, and in East Germany, some have even punished workers for

attempting to set up works councils without facing sanctions. To paraphrase institutional theory, unions cannot always interest the courts in enforcing, and employers in enacting, the rules that govern labor-management relations, even in the German automotive sector.

A wide range of literature has suggested that union power (and employer disorganization) makes a difference. Using the most common measures – union membership, mobilization and strike proneness and bargaining coverage – the power of unions within the OEMs should be considerable. This worker-side collective power was behind the successful mobilizations of IG Metall members during the 1990s (Turner 1998). In more recent years, however, workers in some of the best organized companies, including those discussed above, have given up concessions. Many works councilors view concessions as an essential condition for job retention, and some of works councilors view mobilizations as mere spectacles or rituals, but irrelevant to the main goal of job retention. Though they view concessions as necessary preconditions for retaining jobs, works councilors recognize that they are not sufficient for protecting the workforce; other factors, like the success of the firm in the product market also matter. In this context, mobilizations can take on a “ritualistic” character, which express labor solidarity, but do not prevent management from winning reduced labor costs, as in the 2004 mobilizations of DaimlerChrysler workers against management’s demands; elsewhere, even going through the motions of conflict-partnership can be impossible, as at the suppliers in the east. Though high union membership gives IG Metall massive capacity for advising, this capacity has not so far extended to a systematic attempt to stop outsourcing or reorganize supply chains analogous, for example, to its team-work initiatives of the 1980s (Turner 1991).

Whatever the merits of the complementarities thesis in understanding other institutional systems in other national contexts, it does not help to understand change in industrial relations in the German auto industry. Employers seem to be proving that it is

possible to produce a quality product without the whole production process being covered by works councils and collective agreements. There is little reason to think otherwise: Daimler has little self-interest in employing highly skilled janitors, cooks and truck-drivers other than to avoid conflict with the works council. In 2005 management won works council acceptance of lower pay grades for them, and left-wing works councilors who wanted to organize more resistance to concessions were expelled IG Metall.

In more and more workplaces, the power of unions has been weakened by new market relations that put some workers into precarious conditions, while temporarily securing competitiveness and the position of workers inside the OEM. Models do exist of coordinating across these boundaries. At DaimlerChrysler, for example, an international framework agreement protects the basic rights of workers in the supply chain, and at a number of supplier parks, IG Metall offices have succeeded in bringing up standards through collective bargaining. However, just-in-time inventory and logistics techniques do not strengthen the power of workers by making production more sensitive to sudden stoppages in the supply chain. There is no analogue here, for example, to the solidarity between dockworkers and seafarers to regulate Flags of Convenience shipping (Lillie 2004). To the contrary: in the 2003 strike, held up component deliveries to assembly plants led to union disarray and defeat.

The resulting bargaining landscape is more fragmented than in a vertically integrated production process, and is characterized by concession bargaining and instability. Although concessions do not guarantee lifelong employment, resistance can give management a pretext to disinvest. Concessions may not be sufficient to retain work, but to threatened works councilors they seem necessary. Maybe this flexibility is the only way that IG Metall and works councilors can continue to win support and recognition from workers and elites, given an atmosphere of political malaise and economic stagnation. For the rest of the world, however, the benefits of German social partnership are increasingly difficult to understand.

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