Whipsawing: Organizing Labor Competition in Multinational Auto Companies

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1. Introduction

An important aspect of economic globalization is the competition between labor from different countries that tends to put downward pressures on wages, social benefits and labor standards (Tilly, 1995). This focus paper focuses on a specific type of labor competition: whipsawing by multinational companies (MNCs). This forcing strategy refers to the organization of competition between plants in the context of production allocation and collective bargaining with the aim to extract labor concessions. MNCs, favoring this hardball strategy, offer to allocate production to two or more plants; however, only the plant or plants with the highest labor concessions receives additional production. In this negotiation process, MNCs might go back and forth between different plants, pressing labor to underbid competing plants and go for even higher concessions, hence the term whipsawing. It is generally effective, because labor is aware that new production assignments are crucial for defending jobs and working standards in tight product markets. Furthermore, at a time of economic recession and welfare-state retrenchment, union members are willing to accept concessions due to a heightened fear of unemployment.

The auto industry is an apt focus to study whipsawing, because it were multinational auto companies that first introduced and later sophisticated whipsawing practices. Following the recession in the US auto industry in the late 1970s/early 1980s, the literature reports a number of attempts by the Big Three to organize competition between plants (Katz, 1985; Moody, 1997; Turner, 1991). This practice spread to Europe in the late 1980s, when GM and Ford conducted ‘coercive comparisons’ between engine and parts plant (Mueller & Purcell, 1992). The integration of auto production across borders made this also a more widespread practice in the auto assembly sector in Europe in the 1990s. While whipsawing in the US played mostly out within the national context, despite some example to the contrary (Babson, 2000), whipsawing was more comprehensively developed into a full-fledged transnational practice in Europe. European management gradually developed whipsawing practices along with technical and production innovations. The introduction of production platforms was of particular importance, because they made it easier for management to shift production across borders. Empirically, this paper goes beyond the earlier more informal coercive comparisons observed by a number of researchers (Marginson, Armstrong, Edwards, & Purcell, 1995; Mueller & Purcell, 1992) and reports the development of formal bidding processes for the allocation of auto production.

Because of these recent whipsawing innovations in Europe, this paper traces the development of varying whipsawing practices at Volkswagen (VW), the largest European auto company, from the early 1990s to the great recession at the end of the 2010s. The paper identifies four different types of whipsawing: coercive whipsawing, discursive whipsawing, hegemonic whipsawing and formal bidding. These outcomes are determined by the capacity of management to shift production across plants, which is conditioned by the degree of standardization and integration of production across border, the extent of parallel or exchangeable production in the context of transnational production platforms, the utilization of plants and the overcapacities in the product market. In addition, whipsawing practices are shaped by the balance management strikes between forcing and fostering. Management generally aims to cooperate with labour aiming to maximise labour effort for meeting high-quality standards; however, management also used the forcing strategy whipsawing for
extracting labour concessions. Management found varying answers to the question how whipsawing can help extracting labour concession without threatening cooperation in the production process.

The literature on labour competition provides detailed studies of how management organises competition between plants, e.g. the important study by Mueller and Purcell (1992) identifies coercive comparisons, Babson (2000) describes the dual sourcing of production at Ford and Sisson et. al. (2003) analyses how benchmarking is used to single out plants out for concessions. We seek to contribute to his literature by introducing a typology of whipsawing, which differentiates between different types of whipsawing and specifies the conditions under which each type of whipsawing occurs.

This paper is based on a case study of the multinational auto company Volkswagen. We conducted interviews with unionists, managers, workers and industry experts in the UK, Spain and Germany between 2002 and 2010. Besides, the interview data, we conducted archival research examining the leaflet archives of labour unions, which allowed us to trace changes in whipsawing practices over time.

The following literature review discusses the evolution of the concept whipsawing, reviews varying whipsawing practices and highlights their role for changes in employment relations. We then provide an overview of our argument and introduce the four types of whipsawing identified in this paper. In the following empirical section we trace the evolution of whipsawing practices at the auto MNC VW. The conclusion provides a comparative analysis of the cases and discusses the limits and contribution of this study.

2. From Union Whipsawing to MNC Whipsawing

The Oxford Handbook of HRM defines whipsawing “as a bargaining tactic used by trade unions in which there is an attempt to spread wage and other concessions from one employer to another using ‘coercive comparisons’. A breakthrough in negotiations in a lead firm can thereby be generalized across an industry or occupational group” (Heery & Noon, 2008). Union whipsawing was a more widespread in the post World War II decades, when unions operated in national product markets and had more power vis-à-vis employers. Arthur Ross discusses such union practices in his classic study Trade Union Wage Policy. He points to equalizing tendencies under collective bargaining, driven by various ‘orbits of coercive comparisons’ (Ross, 1948), amongst them centralized bargaining by industrial unions. National unions asked local unions to submit local settlements for ratification. In addition, union officers regularly took part in local negotiations aiming to ensure similar outcomes across firms. Whipsawing was the key forcing strategies that allowed unions to enforce a pattern as can be seen in the US auto industry. The United Automobile Workers (UAW) negotiated a favorable contract at one company and then asked other companies in the auto
industry to match the bargaining outcome (Katz, 1985). Companies that resisted would be coerced into the pattern through strike action. The UAW would have the benefit of the fact that the strike fund would continue to accumulate revenues from workers at the companies that were not struck. Even though no formal sectoral collective bargaining structure existed in the US auto industry, the UAW was able to whipsaw auto companies into the pattern and the deviation of the pattern was only minor (Katz 1985). Other union wide settlements were negotiated in the steel, rubber, meat-packing, electrical, coal, railroad and maritime industries.

Similar union whipsawing practices happened in UK manufacturing in the post-war decades. ‘Lead employers’ were targeted by the trade unions to set the standard for the industry. In the case of the motor industry Ford workers established a ‘parity campaign’ based on comparisons with the wage rates at British Leyland (Beynon, 1973). Subsequently Ford became seen by the unions as the company that set the wage standards for other auto companies in the UK (Turner, Clack, & Roberts, 1967). The unions collaborated with Ruskin College, a labor-oriented university, to prepare detailed wage bids based on comparisons, which the unions would enforce through strike action, if verbal threats would not suffice.¹ Employers in UK manufacturing industries regularly preferred and opted for multi-employer bargaining in the post-war decades, because this protected individual companies from union whipsawing (Marginson, 1988).

The academic literature in the 1950s and 1960s focused largely on union whipsawing; it is only in the 1970s that academic articles more widely reported the occurrence of employer whipsawing (Alexander, 1971; Hendricks, 1976), which seemed to be related to a gradual power shift between employers and unions. The main explanation given is increasing company size through corporate mergers, in particular conglomerate merger. The ‘deep-pocket’ argument suggests that bigger companies have greater financial resources and thus greater staying power in collective bargaining power, allowing companies holding out for a better deal. In addition, conglomerate companies cut across product markets and union jurisdictions, making it more difficult for unions to take wages out of competition within a company. However, an empirical paper that examines the effect of mergers on collective bargaining suggests “that union whipsawing is the much more prevalent than the reverse phenomenon” (Hendricks, 1976).

It was only in the 1980s that employer whipsawing became a more widespread phenomenon. A case in point is the US auto industry. A number of factors contributed to a changing constellation between management and the UAW (Katz, 1985). The severe recession in the auto market depleted the US companies of financial resources. In addition, new foreign competitors, at first Japanese and later German companies, entered the US auto market and build plants in the South of the United States and successfully resisted unionization. The Big Three partly countered the increased competitive pressure through the foreign sourcing of parts and the build-up of parts plants with lower labor costs in Mexico (Moody, 1997). In addition, management sought to lower labor costs through whipsawing. Katz (1985) reports of whipsawing at a Big Three axle plant in 1981. Management threatened to purchase the

¹ This is also based on a personal E-mail correspondence with Huw Beynon (author of the book ‘Working at Ford’) in February 2012.
new axles from a foreign plant unless the local union would agree to concessions. The unions, under pressure to maintain jobs, agreed to a number of work rule changes amongst others the broadening job classifications in order to allow more flexible work assignments, in turn management agreed to assign axle production to the plant. In the second half of the 1980s, whipsawing became also more widespread at assembly plants. The efforts by management were somewhat contradictory. The necessary work rule changes at local plants for cooperative, team-work oriented lean production were forced upon local union through whipsawing (Turner, 1991). Plants that did not ‘cooperate’ were starved off production, closed down or threatened with closure. In a similar vein, Babson (2000) reported ‘dual forcing’ between Mexican and US plants. Ford played off plants from both sides of the border with the aim to extract labor concessions. As the companies were not initially able to break the wage pattern, management focused on changes of work rules at the local level, which contributed to the decentralization of collective bargaining (Katz, 1993).

However, the more widespread use of employer whipsawing and disappearance of union whipsawing were not only related to external factors such as changes of the product market and labor market, but was also intrinsically linked to the changes of the MNCs. The territorial expansion of MNCs during the postwar decades (Gilpin, 1975) accelerated in the 1980s and 1990s. MNCs spread to a greater number of countries and foreign direct investments increased. In addition, technological and production innovations changed the organization of MNCs. MNCs introduced information technologies and standardized and integrated production in the wake of the lean production movement. MNCs outsourced production and asked suppliers to deliver just-in-time. These changes were distilled into global manufacturing systems that detailed work organization and production norms, which the MNCs sought implementing in their plants around the globe. In addition, MNCs introduced production platforms. Different car models on one platform shared the majority of parts and only the design would differ across car models of one platform. The production of a car model became less idiosyncratic and less bound to one plant, instead the platform related reorganization of production allowed plants to produce different car models and increased MNC flexibility to shift existing production between plants and to assign new production to a variety of plants. The greater standardization and integration of production facilitated the rise of benchmarking, a management practice that systematically measured and compared plant and labor performance (Sisson et al., 2003).

The above sketched changes of MNCs significantly increased the employer capacity to whipsaw, which was of particular importance in continental Europe, e.g. Germany, where statutory sectoral collective bargaining tended to define standardized wages and work rules and to protect unions from employer whipsawing. However, US auto managers, based on their experiences in the US, began to experiment with whipsawing practices at parts plants in Europe from the mid 1980s. Managers at Ford and GM pitched German and British car parts plants against each other (Mueller & Purcell, 1992). They won some concessions at the local level in both countries. Thus, managers were able to overcome the constraints of sectoral collective bargaining in Germany, initially to a limited extend. However, whipsawing practices spread beyond parts plants to auto assembly sector in Europe in the 1990s as the case study details below.

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2 See UNCTAD reports, various issues.
3. Varieties of Whipsawing

Based on the case study we inductively identified four different types of whipsawing: coercive whipsawing, discursive whipsawing, hegemonic whipsawing and formal bidding. We argue that these different whipsawing practices are conditioned by two sets of factors. First, economic and structural factors shape the whipsawing capacity of a company and put varying economic pressure on management. Highly standardized production, parallel production and production platforms make it easier for management to shift production between plans and assign new production to different plants; which allows pursuing the full range of whipsawing practices. In contrast more specialized or idiosyncratic production networks make it difficult to shift production across plants, and thus limit the whipsawing capacity of a company. In addition, a recession in the product market drives down production levels and leads to the underutilization of plants, which tends to result in company losses. This puts pressure on management to extract labor concessions through whipsawing. In turn, a booming auto market drives up production levels and plants tend to be fully utilized, which makes it easier to make profits. There is less pressure on management to extract concessions. As the different plants run at full capacity, it is difficult to shift production between plants.

Second, within the sketched economic and structural constraints, management has some degree of freedom to develop whipsawing practices. While economic pressure and whipsawing capacity condition and shape management choices, they do not determine whipsawing practices. The specific manifestation of whipsawing is shaped by how management strikes a balance between forcing and fostering (Walton, Cutcher-Gershenfeld, & McKersie, 2000). All the examined companies pursued two contradictory goals. On the one hand, management seeks a partnership with labor, because they depend on cooperation and maximizing labor effort for producing high quality products. On the other hand, car companies aim to extract concessions from labor in a highly competitive auto market. However, whipsawing practices can be perceived as an aggressive management strategy, which undermines labor-management cooperation. The four different types of whipsawing sketched below, show how management deals with this conundrum and strikes a balance between fostering and forcing, or between partnership and coercion.

Discursive whipsawing refers to the rhetorical threat by management to shift production to another plant, if labor does not agree to concessions. Management does not actually intend to shift production, but hopes that announcing to do so will already suffice to extract labor concessions. Management might also not be able or only to a limited extent to move production to another plant, and thus discursive whipsawing can be an empty threat. However, it can be difficult for labor to verify management’s real intention, even if unions have statutory rights to access corporate information. Labor can counter discursive whipsawing by cooperating with unions from other plants within or across countries, which might result in the outcomes that labor unions in other plants declare to refuse taking on more production or labor might find out that other plants do not actually have the capacity to take on more production. Discursive whipsawing might cause tensions between management and labor, but does not seriously undermine labor-management cooperation in the production process.
A key characteristic of *hegemonic whipsawing* is that it is accepted by labor. Management whipsawing becomes part of an ideological or hegemonic project (in the sense of Gramsci & Buttigieg, 1992). Management has successfully convinced labor representatives that the competitive assignment of new production is necessary to survive in the context of cut-throat competition. These labor representatives agree with the management rhetoric and depiction of economic pressures, and believe that the competitive assignment of production will keep the workforce on their toes and help to make the plant more competitive, to win production assignments from headquarters and to secure jobs. Hegemonic whipsawing can be found in ‘productivity coalitions’ (Windolf, 1989). As management and labor share the belief that it is their joint task to keep the company competitive, hegemonic whipsawing does not influence labor-management cooperation in the production process.

*Coercive whipsawing* refers to cases, in which management has the capacity to transfer existing production or assign new production to other plants. In addition, management does actually transfer or assign production to other plants or has the intention to do so, if labor does not agree to concessions. As coercive whipsawing regularly takes place in a context of a tight product market, underutilized plants and company losses, the management treat to allocate production to another plant poses an existential threat to labor. If the plant does not receive sufficient production, labor faces wage cuts, job cuts and the worst case scenario is a plant closure. Labor can either agree to labor concession, hoping to outperform competing plants and aiming to win new production, or alternatively labor fights the concessions by challenging the legitimacy of whipsawing, by cooperating with unions from other plants and through various forms of labor protest such as strike action. As the unions do not regard whipsawing as a legitimate management practice, this can seriously undermine labor-management cooperation in the production process, in particular if labor engages in a sustain campaign to fight whipsawing practices.

*Formal bidding* is a further development of coercive whipsawing. Companies applying this type of whipsawing tend to have fully fledged out production platforms, which gives management ample flexibility for assigning car production. Before the production launch of a new car model, management announces a formal bidding process to the plants that have the capacity to produce the model. The specific rules of the bidding process can vary, but generally the plant with the best tender, or highest labor concession, get either the exclusive right for producing the new car model or the highest share of the total volume, in case new production gets distributed to several plants. Management introduces formal bidding with the aim to overcome some of the negative side effects of coercive whipsawing such as the conflict and disruption of the production. Management aims to communicate that creating a within-company market for the allocation of production would produce a fair and equal playing field for the different parties involved. Managers also point to the truism that markets are regularly used for the distribution and allocation of goods and products. Management aims to increase the legitimacy of whipsawing. However, labor tends to oppose formal bidding, and thus this type of whipsawing can lead to similar disruptions of the labor-management partnership on the shop-floor as coercive whipsawing.
4. Whipsawing at Volkswagen

VW is a multinational auto company with headquarters in Wolfsburg, Germany. VW was one of the first European auto companies that extended production internationally. However, it was not until the 1980s that VW began to more widely expand its production network in Europe. In 1986, Volkswagen bought a majority stake of the Spanish auto company SEAT, and took over the Czech company Skoda in 1991. In addition, Volkswagen engaged in a joint-venture with Ford in Setubal, Portugal, in 1995. The only plant in the UK is an engine plant in Crew. Despite a long tradition of labor-management partnership, VW began to be concerned about increasing labor competition within Europe, which spurred the foundation of a European Works Council (EWC) in 1992. In 1999, labor representation was extended to the global scale; management and labor agreed to the foundation of World Works Council.

In 1992 began a recession of the European auto market and when it became apparent that VW drifted towards a major company crisis, the supervisory board appointed a new CEO, Ferdinand Piech, who was tasked to restructure VW. One main strategy was to reorganize production and he introduced production platforms, which went even across different car brands Skoda, VW and SEAT. The different models on a platform would share a large number of common parts and only the exterior design of the cars would differ. This allowed a cheaper sourcing of parts or greater economies of scale for parts produced in-house. In addition, VW sought to tackle more aggressively comparatively high labor costs. For example, management closed down car production in SEAT’s Zona Franca plant, near Barcelona. Labor in Germany was only able to avoid redundancies through agreeing to far-reaching working time reduction and working time flexibility. The HR manager envisioned the ‘breathing company’, meaning that production and working time were supposed to contract and expand in line with the demand in the market. As part of the drive to reduce labor costs, management engaged for the first time in whipsawing practices in 1995. Management threatened labor in Germany to assign the production of the new model Lupo to the VW Pamplona plant in Spain. Previously, all new VW car models were initially produced in Germany and then only assigned the models to foreign plants in a more mature production phase. In order to avoid the first time assignment to a foreign plant, labor in Germany agreed to labor concessions. Given the comparatively contentious labor relations at VW’s Pamplona plant, it seemed unlikely that management seriously intended to assign the new car to the Pamplona plant.

Whipsawing practices markedly changed in 1999. The standardization of production and the development of the platform strategy gave VW more flexible to shift car production between different plants and to assign new car models to different plants. In 1999, VW management assigned the new car model Touareg, a small SUV, to the Skoda plant in Bratislava. This showed that the German VW management was serious about taking advantage of lower foreign labor costs and that the foreign plants were up-to the task to roll out high-end car models. In addition, VW introduced a bidding process for the sourcing of parts, which pitted internal VW parts suppliers against external competition. Internal and external supplier could submit a tender. If an external supplier offered to produce at lower costs, the internal VW supplier had the change for a final bid to undercut the external supplier. This bidding process for the sourcing of parts radically reduced the labor costs at VW parts plants in Germany. It is remarkable that this formal bidding process was introduced with the consent of labor. Labor
representatives, who cooperated closely with management on the supervisory board, were aware that the parts sector was highly competitive and the bidding process helped to make the internal suppliers more competitive. Even if this meant labor concessions, labor preferred them over the permanent outsourcing of production and jobs, which they regarded as realistic alternatives.

Shortly later management approached labor representatives in Germany about the production of a new car model: the Touran. However, management made clear that this would only happen in Germany if labor agreed to a separate, lower collective bargaining agreement. The management proposal became to be known as the ‘5000 x 5000 project’. Management proposed 5000 new jobs for 5000 German marks (about 2,500 euros), which was roughly 20% below the collective bargaining agreement. Initially, the IG Metal rejected the proposal as this would have broken the collective bargaining pattern at VW for the first time. The protracted negotiation between management and labor received a lot of attention from the media as well as from politicians. IG Metall was accused by the tabloid press as a ‘job killer’ that would not allow the creation of new industrial jobs in Germany. Throughout the negotiations management threatened the relocation of the production to a foreign plant. The conflict was only resolved after the chancellor of Germany, Gerhard Schroeder, personally intervened. Under mounting pressure, labor agreed to the ‘5000 x 5000 project’ and the lower-tier collective bargaining agreement.

In 2002, VW management used the increasing flexibility in their European production network to whipsaw the SEAT plant in Martorell, near Barcelona. In contrast to the German plants, which had already agreed to far-reaching working time flexibility measures during the 1990s, the Spanish unions fiercely resisted working time flexibility as they regarded a stable working pattern as a historic trade union gain. During a collective bargaining round in 2002, management threatened to transfer production to the VW plant in Bratislava, Slovakia. When labor once again rejected to make any concessions, management made good on its threat and transferred 10% of the Ibiza car production, the flagship model of the Matorell plant, to Slovakia. This was a shock for the labor unions. Production of the Ibiza returned only two years later to Spain after the unions agreed to more working time flexibility.

During the next downturn of the European car market, labor in Germany was also under pressure to secure sufficient car production. In the 2004 collective bargaining, the IG Metal agreed to a lower tier collective agreement, the so-called ‘collective bargaining agreement II’, which applied to all newly employed workers. The content of the agreement is similar to the above sketched ‘5000 x 5000 project, and thus all newly employed earned about 20% less than the core workforce. In return for the concessions, labor secured production assignments for its German assembly and parts plants. In 2005, management engaged in more blatant efforts to whipsaw the German plants. VW had hired Wolfgang Bernhard as a new manager. He had worked previously at Daimler-Chrysler in the US and oversaw the far-reaching restructuring of Chrysler in the 2000s. Bernhard announced that the production of the SUV Tiguan would go to the plant in Portugal, if the Hannover plant would not agree to labor concessions. In addition, he announced a bidding process between two German plants. He offered the C-Coupe car production to the Emden and Mosel plants. The Emden plant submitted the better tender and won the bidding contest.
Labor at VW Germany had clearly the power to prevent whipsawing practices. Union density was above 95%, labor had co-determination rights on the supervisory board and shop-floor level, and in contrast to most other German companies that are covered by sectoral collective bargaining, labor had the right to strike on the company level. Labor representatives tolerated whipsawing because they shared the analysis of management and believed that VW was operating in a highly competitive auto market, in which the survival of the company was at stake. Whipsawing would keep the workforce on their toes and thus helped to make the plants competitive, which made concessions necessary but helped to secure jobs of auto workers.

VW management pursued a two pronged strategy to convince labor of their ideology and economic analysis. First, management pursued a social partnership relationship with labor, not only within the German labor relations institutions, but also in the EWC and WWC. The VW management took the EWC and WWC meetings seriously and top management, including the CEO, took part in the meetings (a practice rarely seen in other auto companies). In the meetings, management presented all key company information as well as benchmarking data to labor representatives. Based on these data, management continuously sought to convince labor of the need to increase productivity and stay competitive. Second, the other element of management’s ideological work was illegal. In 2005, it became public that VW had bribed labor representatives between 1995 and 2005. The chairman of the WWC, EWC and German works council received an annual income of 350,000 (Euro/ German marks?) and bonuses in the amount of more than 2 million Euro. In addition, management organized brothel visits of key labor representatives in the context of EWC and WWC meetings. There is clear evidence that management sought in return the quintessence of labor representatives in the context of restructuring and whipsawing. The chairman of WWC, EWC and German works council as well as the HR manager were convicted by a German court of embezzlement.

The new chair of WWC, EWC and German works council was more critical of management practices as can be seen in a communiqué of the WWC in 2006, which criticized whipsawing practices and reminded management of their social obligations towards their workers. However, whipsawing practices were bound to stay and became a regular feature in VW’s employment relations. For example, in 2007, VW threatened the Spanish unions to produce the Berlina car model abroad. After labor agreed to some concessions, management assigned the car production to SEAT’s Martorell plant.

The continuous restructuring and whipsawing helped VW to become more competitive. The net profit, market share and number of produced cars produced increased during the 2000s, which suggests that the crisis rhetoric in labor negotiations as exaggerated. VW made a net profit of 7.2 billion euros in 2010 and in 2011 the net profit more than doubled to 15.8 billion euros in 2011. In the same VW became the second largest car producer worldwide (in terms of total number of produced cars). VW also continued to be the most important car maker in Europe with a market share of about 20%.

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3 http://www.bbc.co.uk/news/business-17152843
References


