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German automotive multinationals in Central Europe:

Enterprise coalitions for production

- Alexandra Janovskaia
  London School of Economics

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Multinational companies (MNCs) are at the heart of the international political economy. Thus, understanding the patterns of their strategies and governance is a crucial task for those who want to understand the forces and counter-forces of increased international competition. For a long time the scholars who studied MNCs have operated with simplistic dichotomies underlying the firm strategies of internationalisation: market access vs. cost reduction or home country vs. host country traditions. Yet, the theorisation of upgrading outcomes according to the original motivation of investment – efficiency seeking vs. market seeking (Meardi, Marginson et al. 2006) – is at its limits when we realise that both motivations played a role in investment decisions. To explain the shift in industrial upgrading one needs a better conceptualisation of internationalisation strategies of manufacturing multinational companies. A more dynamic institutional analysis that takes into consideration the role of agency is needed.

This paper presents the upgrading strategy of the VW Group in Central Europe as a multifaceted and dynamic process, it sets out to disentangle the role of managerial and labour agency. There are two reasons why it is important to understand the role of labour representatives and other actors in the upgrading process. First, in the upgrading process of German post-war industrial capabilities, especially in the automotive industry, the role of labour agency has been widely documented. It had a 'humanising' influence on the work process (Turner and Auer 1994; Roth 1997), it helped managing the 1970s crisis and had an active role in co-defining investment strategies of firms abroad. It was also involved in the joint daily decision making concerning work organisation in the 1970s and 1980s (Tolliday 1995) and it has tried to limit the effects of vertical disintegration and restructuring (Doellgast and Greer 2007). Although since the early 1990s labour has been pushed more and more into defensive with concession bargaining becoming a norm (Rehder 2003; Jürgens and Krzywdzinski 2006), its role in co-defining and co-managing the industrial, skill and social upgrading of the production process remains a crucial feature of German industrial history. Second, understanding the role of labour in the industrial upgrading process is also crucial for understanding the broader issues of transnational production chains and their governance.

When we compare this experience with the upgrading of industrial capabilities in Central Europe after 1990s, the picture differs from the German one. In Central European automotive subsidiaries of the Volkswagen Group the legal environment has been much weaker giving unions less rights to influence company affairs. Three tools have been in unions' and works councils' (WCs) hands to influence the company affairs: participation in the supervisory board, collective agreements and information and consultation rights. Unions and WCs have been a junior partner as they have

had only very few co-determination rights (Kohl and Platzer 2004), while information and consultation rights were extended relatively recently. This explains why industrial upgrading has been primarily management driven. Yet, it would be wrong to discount the role of labour in the upgrading process. The paper argues that the industrial upgrading taking place since the late 1990s- early 2000s has been achieved due to coordination between local labour representatives and management. Although local unions did not really drive the change, their role has been however crucial for upgrading. It is the intensified exchange between labour and management since the late 1990s that contributed to the success of industrial upgrading. This is why we refer to the upgrading process as multifaceted: it is not managerial agency alone but the cooperation of several stakeholders that allowed for upgrading. 'Dynamic' refers to the open-ended process of upgrading. It has been a trial-and-error rather than a linear process in which different governance coalitions have been competing for dominance. It is argued that during the late 1990s-early 2000s the local management –labour coalitions were especially strong. The two central pillars of these enterprise coalitions or production pacts have been wage moderation and high functional flexibility. These were traded by unions for company expansion and most importantly, product and production upgrading.

The enterprise pacts for production between management and labour that have emerged is an interesting finding for the debates around the governance of transnational production chains. The majority of authors agree that with the profound internationalisation of large firms during the last 15-20 years, competition between production locations has increased. To the factors that explain increased competition within them belong disorganisation of production chain (Doellgast and Greer 2007), management' strategy of playing off several production plants against each other (Greer and Hauptmeier 2008), institutional structures such as European works councils themselves (Hancke 2000) or reliance on the power base in the headquarters and on the 'national channels of influence'(Fetzer 2007: 9) in the countries where companies' headquarters are situated. This paper proposes a further dimension that limits a true transnational labour response to global competitive pressures: enterprise pacts for production in low cost countries.

Section I of the paper presents in brief the key elements of the Eastern wave of expansion of the VW Group during the 1990s. In Section II the paper describes such a qualitative upgrading in product and production strategy showing that in all four subsidiaries there has been a shift from low to high production depth and from a peripheral to more embedded position of subsidiaries within the Group. In Section III the paper goes on to explore the role of managerial and labour agency in this upgrading process. The conclusion relates the finding on enterprise pacts for

production in the low cost countries to the broader issue of governance of the transnational production chains.

I. Internationalisation and solidaristic balancing of interests

Central Europe has become a regional hub of automotive production for investors from Western Europe, US and Asia. One tenth of all FDI stocks to the big players in the region are in the automotive industry (UNCTAD 2006), while for smaller countries like Slovakia this share is even higher. In 2006, the four former Visegrad countries (Poland, Czech Republic, Slovakia and Hungary) plus Slovenia produced together two million vehicles. Poland and Czech Republic are the largest car makers followed by Hungary and Slovakia. This re-emerging of strong industrial capabilities in the region is an unexpected outcome that not many regional observers would have predicted 10-15 years ago.

The VW Group was among the first wave of large foreign investors who came to Central and Eastern Europe in the early 1990s. For the VW Group, the acquisitions in Central Europe stood in the long list of expansion of activities world wide. VW started a strategy of internationalisation long before the notion of globalisation became an every-day vocabulary. Its first expansion and internationalisation was in the 1950s when VW Canada, VW Brazil, VW America, VW Australia and VW South Africa were established. In 1964, it expanded to Mexico. In the 1970s, VW strengthened its European production geography by opening a plant in Brussels, Belgium, while in 1986 Spanish SEAT was acquired. Finally, the last big wave of expansion started after the fall of the Iron Curtain. In 1990s, in Eastern Germany, VW bought the Trabant factory in Mosel and an engine plant in Chemnitz. The four Central European plants considered in this study are part of this expansion wave. While in 1990 the share of VW cars produced outside of Germany was 41%, it increased dramatically to 65% in 2000. Today, Volkswagen is the largest single foreign investor in Central and Eastern Europe[1].

VW took stock in its brown-field acquisitions and gradually built them up bringing them under its full control by the late 1990s. Thus, in 1991, VW Group acquired a stake in Škoda in Mlada Boleslav, the suburb of Prague, in the Czech Republic, and in the former Škoda's supplier plant in Bratislava, Slovakia. In Škoda, after the original acquisition of 31.5% in 1991, VW increased its control share to 60.3% in 1994, 70% in 1995 finally owning the company completely in 2000.

[1] A further VW engine plant is situated in Polish Polkowice

In VW Bratislava, full ownership was acquired in 1994 and the company changed its status at the end of 1998. The former Tarpan factory in Polish Poznan entered a joint-venture with VW in 1993 with original participation of 25.4%, and the full VW ownership followed in 1997. Audi, a producer of luxury cars in the VW Group, invested in a greenfield site in Hungarian Györ in 1993.

Before the expansion to Spain in the 1980s internationalisation was unproblematic as it was following regional market demands abroad. First with the acquisition of Seat parallel production facilities coincided with high competitive pressures coming from low wages in Spain. Yet, internationalisation of the VW Group within Europe to low cost regions was accepted by the German trade unions already early on as a necessity for their company to survive in the global competition.

Even more importantly, it was a 'low cost' but not a 'low road' transnationalisatoin that unions envisaged. The IG Metall, the German metalworker union, envisaged upgrading also in social standards to avoid downward pressure of social dumping. The preamble of the foundation document of the European Works Council in 1990 talks about 'solidaristic balance of employment and developmental opportunities of all production sites of the VW Group' (Mueller, Platzer et al. 2004: 188). Although not clear if this has really transformed the principle of solidaristic employment strategy between different plants that has been common in Germany to the European level, this has at least been the case for employment and production numbers.

Over the period 1992 to 2005, VW's car production in Central Europe multiplied by four, while its employment increased 2.5 times. Employment creation has also been significant in all four plants. VW Slovakia has developed into a big plant from just over 400 employees in 1992 to 9 065 total employees in 2006 (VW Slovakia presentation 2007). In VW Poznan, employment figures more then doubled from 2002 to 2007 to 6 600 employees. In Audi Györ the number of employees has increased by five times in the last ten years from 1011 in 1996 to 5373 in 2006. Increases in employment were strongest during the 'build up' phase in 1996-1999 with around 1000 people hired every year. Since then the employment has stabilised around 5000. Škoda Auto is the largest assembly plant in Eastern Europe with its total of 26 000 employees and at least 15 000 employees working directly in the production. Today, the Group produces 15% of its total output and its 42 000 employees in Central Europe represent around 12% of the company's global labour force of 345 000.

Furthermore, all four plants could also assure important increases in production volume, especially during the late 1990s- early 2000s. The number of cars produced in Škoda has grown from 170 000 in 1991, to 461 000 in 2001 and just slightly under 600 000 in 2006. VW Slovakia had extremely low production numbers until mid-1990s. The first quantitative jump was in 1998 with numbers tripling from 40 000 to 125 000 in one year. Since 2000, its production numbers for all vehicles together have been around 220 000 per year (VW Slovakia presentation 2007). Similarly, VW Poznan experienced a strong production increase in the early 2000s with its production tripling from 2004 to 2006 to 442 000 vehicles per year. In comparison to the first three, Audi Györ car production has been low: it started in 1998 and reached its peak during the period 1999 - 2002 when on average 55 000 vehicles were produced per year. After that the production decreased to approximately 20 000 vehicles per year. However, the main focus of the plant has always been on engine production which increased dramatically from 200 thousand in 1996, to around 1mn in 1998 and to 1.9mn in 2006 (Audi presentation 2007).

II. Product and production upgrading in VW subsidiaries

Section I outlined that internationationalisation strategies of VW Group in all four production locations intensified during the early 2000s and sometimes already during the late 1990s in terms of production and employment numbers. We showed that although internationalisation of the company in Europe has led to increased competitive pressures, this had an 'approval' of the German local union and WC representatives. Yet, if this has been also the case for other dimensions of production strategy remains to be discussed. In comparison to some other European Works Councils, the VW Group EWC remains strongly dominated by the German headquater labour activists. Considering the strong 'co-manager' rights they have this is not surprising. Yet, what is surprising is the fast speed of the qualitative upgrading of the Central European subsidiaries. The features of qualitative industrial upgrading – going towards high rather than low production depth and towards transnational rather than peripheral position in the product choice and sourcing - allow to construct a two-dimensional space in which the evolution of our case studies over time can be analysed. Although clearly both dimensions are continuous variables, for simplification they are presented as two-level variables. The following paragraphs describe an important shift in both dimensions when mid-2000s are compared to mid-1990s.

Although the Skoda brand was kept, original Skoda cars were of low quality and limited technology base. Two early Škoda models have been Favorit that was produced between 1988

and 1994 and Felicia, produced between 1994 and 2001. However, the industrial upgrading at Skoda has been strong: its product range has been modernised and the diversity of models extended over time. Middle range car Octavia was introduced in 1996 while small car Fabia was introduced in 1999. In 2001, Škoda has even started to expand its segment range by introducing Superb, an upper medium range car. The production of the fourth model line, a minivan Roomster, started in 2006. This production strategy included integration of Škoda into VW's platform strategy. In this context, the first decisive innovation was achieved in 1996 with putting Octavia on the Golf-platform. The introduction of the compact car Fabia in 1999 was the second big step of upgrading as the platform introduced was new and the VW only introduced its own vehicle with this platform a year later (Sperling 2004). In terms of sourcing decisions, the VW Group is responsible for the platform (engines, gearboxes, axe, cockpit, seats), while Škoda can decide independently on the rest (Dörr and Kessel 2000). Yet, what is important for us is that the company has received important Group-wide functions: it is responsible for the material procurement of the whole VW Group from Central Europe (Sperling 2004: 190). Škoda also has done important investments in the field of R&D and has own R&D centres employing 1 420 engineers (203 mn euro investment) (Škoda Presentation 2006). This evidence clearly indicates that the company has shifted from a peripheral position of the early 1990s to a transnational position in the product and sourcing strategy within the Group by the early 2000s.

As far as the level of production depth is concerned, it has increased substantially over the years. Skoda has developed into an almost fully integrated manufacturing plant. It has its own motor and components production. An important upgrading step took place when the construction of a new motor plant was agreed upon (Interview December 2006). Engine production is one of the core functions of a car plant thus having this competence has significantly improved the standing of the company within the VW Group. Škoda is the only producers of the 1.2 litre engines for the whole group (Interview December 2006). The company has also own gearbox production and its own foundry (casting) facilities, press, welding (body shop), painting, important component production (such as gearboxes), quality control and a tool-making unit. Thus, Škoda stands out among the four plants as having achieved the highest level of upgrading in both model choice, sourcing autonomy as well as in production depth.

In three other plants no own brand was kept and the plants started producing established VW, Audi or Škoda cars and components thus following a less autonomous periphery strategy. Low-segment small and medium-size models have been the main types of models produced: VW Polos in Slovakia, utility vehicles such as T5 and Caddy in VW Poznan. However over time the

subsidiaries could acquire exclusive rights within the Group to produce the models. Also, while in the early 1990s old models were produced, over time the subsidiaries could gain tenders for producing the most recently developed models. Thus, at least since the late 1990s, the strategy of periphery shifted to a transnational one where foreign plants compete on equal terms with German plants for having the right to produce the newest models. A good example of how the Central European subsidiaries made use of their rights to compete on equal terms with other production locations is the production strategy of VW Slovakia. Since the early 2000s, Slovak VW plant specialises in high-end low-volume models such as VW's Group sport utility vehicle collection: Audi Q7, Porsche Cayenne and Volkswagen Touareq. When tracing the historical evolution, the upgrading trend is easy to sketch. VW Production in Slovakia started very modestly with very low volumes of Passat and Golf, the two major VW sedans in the mid-size segment. The first significant increase in production came in 1998 when volume tripled from 41 000 to 125 000 within a year. Since 1999 the production mix has been balanced between Golf and Polo, the latter being until recently the smallest VW model. The production further doubled in terms of units produced from 1999 to 2002. In 2003 came the industrial and technological breakthrough for the company with one third of production starting to go in the SUV segment, this share increasing to two thirds in 2006 (VW Slovakia presentation 2007). This model strategy that at the beginning ran under the project name 'Colorado' (Mikulikova 2002) was developed in the early 2000s. There has also been upgrading in production depth. The Slovak plant has its own motor production. Since late 1990s VW Slovakia produces several types of engines and gearboxes. Only a small share of them is used for local assembly, as the majority is exported within the Group (Interview March 2007). The plant also has its own foundry (casting) facilities, press, welding (body shop), painting and quality control. As Škoda, VW Slovak engine production supplies the whole VW Group. Thus, the level of upgrading in the Slovak subsidiary has been high in both dimensions assessed.

Once having the opportunity to compete on equal footing with western European plants the management and unions at the VW Slovakia seized the opportunity. One precondition of such upgrading was making sure that an appropriate level of technological know-how was available in the plant, but another way to convince the headquarters' management was to underline the labour cost advantage and the high flexibility of the labour force (see Section III).

The upgrading of VW Poznan in terms of model choice and sourcing has been important although less pronounced in comparison to the other plants. As in VW Slovakia, in VW Poznan, decisions on products, sourcing and sale channels are centralised in Germany (Interview March 2007). As

far as product strategy is concerned, it has remained for a some time within a periphery realm and moved to transnational strategy only in the early 2000s. Since 1993 old Polish models of transport cars and since 1994 old Škoda models Favorit and Felicia were assembled there in SKD (semi-knocked down) mode. In was in the early 2000s when the production of first new models, just developed within the VW Group, started: special destination utility cars in 20001, T5 in 2002 and Caddy in 2003 (VW Poznan website[2]). Thus, in the dimension of autonomy and product strategy, the plant has improved its position.

Its upgrading in production depth has been even more important. During the 1990s, the plant had an extremely low production depth. A new foundry facility was opened in 1996. Also, after full ownership was acquired in 1996 a more sophisticated CKD (completely knocked-down) production mode of newer Škoda models was introduced in 1997. The component production was further strengthened in 2003. As in the two other plants, apart from the basic assembly functions such as press, welding and painting, VW Poznan has its own foundry facilities, some component production (such as gearboxes) and quality control (VW Poznan website).

Audi Hungaria in Györ represents a somewhat special case in its mix of products, yet industrial upgrading is visible there as well. The evolution of car production at Audi Györ has experienced some upgrading in product through the exclusive rights of production together with the main German plant. Audi started to produce its small but pricy cars, the sporty TT Coupe and Roadster, in Hungary since 1998, and since 2006 the second generation of TT was launched. This car is a two-door vehicle in the Audi's medium segment, one of the most modest models of this luxury producer but at a base price range of 33 000 to 44 000 euro. The Györ plant enjoys a certain level of exclusivity as in cooperation with the headquarters in Ingolstadt it is the only producer of the TT Coupe. However, in Audi Hungaria, the overall production depth of vehicles is low comprising final assembly and final quality control with painted bodies being imported from Germany (Keune and Toth 2007: 6). However, it would be wrong to argue that the value added in the plant is low: the plant has been an engine plant rather than a final assembler. The plant has been largely upgraded in its function in the global value chain as far as engine production and sourcing of parts for engines is concerned. Since 1996 engine production has been relocated from Ingolstadt to Gyor and the number of produced motors increased from 200 000 in 1996 to 1.9 mn in 2006. Audi, as Škoda, has invested in the field of R&D and have own R&D centres employing 100 engineers. Today it produces around 400 types of engines for the whole VW Group and it also has received some strategic sourcing responsibilities for the whole VW Group.

[2] http://www.volkswagen-poznan.pl

Table 1: industrial upgrading in the four VW Group East European plants in the 1990s

Transnational capacities of product choice and sourcing			
Low production depth (SKD, CKD)	Skoda CZ mid-1990s (Octavia/ Fabia)		**High production depth (Integrated manufacturing, R&D)**
	Skoda CZ (Favorit, Felicia) early 1990s VW SK 1990s (VW Polo) VW PL 1990s (SKD Skoda models)	Audi HU engine production 1990s	
Periphery capacities of product choice and sourcing			

Table 2: Industrial upgrading in the four VW Group East European plants in the 2000s

Transnational capacity of product choice and sourcing			
Low production depth (SKD, CKD)	Audi HU car production (since 1998 TT Coupe)	Skoda CZ (Own brand/Octavia, Fabia, Superb since 2001/ New engine plant/ Own R&D facilities) Audi HU engine production 2000s (more exclusive rights and more sourcing autonomy) VW SK (Audi Q7, Porsche Cayenne and Volkswagen Touareq since 2003) VW PL (special destination utility cars in 2001, T5 in 2002 and Caddy in 2003)	**High production depth (Integrated manufacturing, R&D)**
Periphery capacity of product choice and sourcing			

To sum up, since the late 1990s- early 2000s, in all four VW Central European production plants we could find evidence of upgrading of industrial capabilities in terms of product and sourcing decisions and in production depth. Škoda could preserve its own brand and in terms of model choice, during the late 1990s - early 2000s, all subsidiaries were allocated the responsibility for the assembly of new, most modern and sophisticated models. They often became the only sites of production of these products. Some further enlargement of autonomy has been taking place in R&D and sourcing capabilities. Production depth has also increased by moving from SKD to CKD and then to integrated manufacturing mode of assembly and also with construction and modernisation of components plants (For overview see Tables 1 and 2).

III. Enterprise pacts for production in Central Europe

Section II sketched the fast upgrading process in the four VW Group subsidiaries in Central Europe in the late 1990s-early 2000s. This Section puts this upgrading into the context of Group's overall product and production strategy in order to show that this evolution can only to a certain degree be explained by the agency of headquarters' management and German unions. This fast qualitative upgrading probably went beyond the solidaristic balancing of employment opportunities as has been defined in the founding declaration of the VW Group's European Works Council. We argue that the headquarters' management and German unions have provided the opportunity structures, yet these have been Central European stakeholders themselves who seized their opportunity to upgrade.

In the 1980s-1990s the product strategy of VW Group changed with the wide usage of platforms and continuous reduction of their number. A small number of platforms is shared between the brands (standardization process has reduced the number of platforms from originally over 40 to 16 and then to 4). The platform strategy in Europe has been first pioneered at the Seat plant in Barcelona that was partially acquired in 1982 and taken over in 1986. When the new platform strategy was adopted, German management and German unions actively tried to avoid direct competition. Skoda has been one of the numerous VW Group brand acquisitions of the 1980s and 1990s. To the VW Group belong Volkswagen, Audi, Bentley, Bugatti, Lamborghini, Seat and Škoda. In order to avoid direct competition in the same price and class segment the strategy of the headquarter management has been to sharpen brand profiles and give different brands own profile complementary to VW and Audi. Brand differentiation required clear brand identities. SEAT stood for sporty cars for young people, while VW stood for reliable products for middle class families and Audi's image has been that of technological pioneer with more expensive product range. Skoda was given a profile of 'Volkswagen technology and quality at an affordable price' (Pries 2004: 141). Thus, VW Group substantively broadened its portfolio and went upmarket with its core models. As Audi went up-market joining the two big German producers BMW and Daimler-Benz in the premium and sports car league, VW cars also could go up-market by occupying the previous Audi position. Since 1996 its main models have had quality and technology superior to their homologues at Opel or Ford. While, in turn, Skoda and Seat took the function of the original VW car of reliable quality, medium technology at affordable price. Škoda was originally conceived to target the 'East bloc'. For this purpose complete separate distribution channels from VW were created (Van Tulder and Ruigrok 1998: 35).

Second, the new face of VW cars is not only that of an enlarged portfolio but also its strategy to occupy unexplored market niches. It entered in the sport utility vehicle markets and it enlarged its commercial vehicles and special utility vehicles divisions. Luxury sports cars have also remained the strength of Audi that went up-market already earlier positioning itself on the same level as BMW and Daimler-Benz products. Since 1998, VW Group has also been active in the mini market with the introduction of VW Lupo and Seat Arosa. Sport utility vehicles such as Porsche Cayenne, VW Touareg and Audi Q7 is another niche that VW Group successfully occupied since the late 1990s –early 2000s. In 2006, a new compact utility vehicle Tiguan was announced. The commercial vehicles is another niche where VW has been increasingly active (Poznan is the production site), mini-car Lupo is introduced in 1998, and Fox in 2006. The VW Groups has followed this strategy in its low-cost locations around the world. A recent example are the production of the New Beetle, marketed as a retro-style 'fun' car (Pries 2006). The retro-style but new platform based New Beetle was developed in 1994 and produced from 1998.

The Group - clearly under strong influence of labour and regional German government of Low Saxony - used several strategies to avoid direct competition with the German production locations: clear brand profiling, going up-market with the key product and going into under-explored niche markets. This product strategy can be described as complementary specialisation. The complementarity between high wage and low wage production locations presupposes that brand division works and that low cost countries specialise on the low end of product variety. However, this original strategy of headquarter unions and management has only worked out to a certain extent as competition between plants could not be completely avoided. The Group has been producing cars in the same class and segments in several parallel locations and a partial cannibalisation of VW brand could not be completely avoided. The case of a high complexity and high value added SUV investment going to Slovakia has been another clear example of the industrial upgrading that undermined the logic of 'complementary specialisaiton'. Furthermore, the increased Group-wide responsibilities given to subsidiaries in procurement and sourcing as well as more important R&D activities show that although still preserved, the principle of complementary specialisation has been under strain. Also, increasing production in Central European subsidiaries increased the competition in engine and gearbox production.

To explain this phenomenon we need to challenge the view of managerial and union decisions as a linear process. As argued by Sperling (2004: 188): 'the restructuring of the production at Skoda did not follow a master plan as the group, itself at that time in a phase of restructuring, did not have one available'. It has rather been a dynamic process of trial and error with different

'coalitions' involved. One type of these coalitions have been the local enterprise pacts for investment and production in VW Central European sites.

What we would like to underline is the crucial role of Central European stakeholders - local management and labour representatives - in the fast upgrading process that brings the complementary specialisation to its limits. Local management has had a clear 'productionist' attitude in its desire to attract more investment to the production location, to ensure production over time and to upgrade. Its overarching goal has been to build up, develop local capabilities and move company's position within the Group from the periphery to the centre[3]. This crucial role of local management has been possible due to the specific control mode of German MNCs. Bluhm (2007) argues that the relatively arm's length control mode of the MNC headquarters has allowed certain opportunity structures to emerge. When these opportunities emerged, they were capitalised upon by local management to strategically enlarge the mandate of its subsidiary within the Group. To convince the headquarters, management had to rely on the support of key stakeholders such as local trade unions. As a consequence, to achieve the goal of plant modernisation and upgrading local management chose to treat trade unions as partners. Thus, the common goals have been achieved by enterprise production pacts: collectively agreed additional, although limited, protections and pay benefits for the labour force were traded-off against more working time flexibility at low wages. The rest of the Section describes this dynamic in more detail.

Limited wage increases have been a substantial part of these enterprise production pacts. Wage restraint and inflation indexation remain the norm, as it is seen by both local management and local unions as the safest option to secure additional foreign investment inflows. This outcome is made easier by the fact that VW, as other MNCs, has been famous for paying wages above national and sectoral averages. Thus, with their wages at 730 euros (20000 Czech krona) Skoda employees were already 10% above the national average (Handelsblatt 02.05.07[4]). Skoda is the sixth[5] employer in terms of wage levels in the Czech Republic (OS KOVO). VW Bratislava's pay conditions are also above sectoral collective agreements as well as above sectoral averages. The average wage in VW Slovakia was 657 euro (32000 Sl. Krona) in 2006 which was practically the

[3] Interestingly, there are some parallels between this argument and the 'car guys' argument by Pries when he describes German managers.

4 Article 'Das Kreuz mit den Kosten'

5 With TRW occupying the first, Bosch the second place

double of the national average of 18 000 krona.[6] In VW Poznan, trade unions in collective negotiations managed to achieve wage increases above inflation indexation, but the margin remains low. Thus, despite high union density and thus potential high mobilisation potential, the wage increases have been kept very low, especially when compared to high productivity increases.

Recently, the situation has been changing with wage increases becoming somewhat more pronounced. During a recent round of wage bargaining at the Škoda Auto in spring 2007, a compromise was reached setting the nominal wage increase at almost 13% with expected inflation rate of 2-3%. In VW Slovakia, the latest wage negotiations were concluded in early 2007 and resulted in a wage increase of 7.5% for two years, somewhat above the expected inflation. In Audi Hungaria, the wage negotiations for 2007-2008 resulted in a wage increase of 7-10% (increase was a fixed sum) with the expected inflation rate of 6%. Yet, despite this somewhat more pronounced wage growth, wage increases still remain far below the productivity increases that often are double-digit numbers. In the interviews, union official confirmed that it was important to preserve the wage gap to Germany as this has been their comparative advantage: thus, Czech and Slovak wages are still at about one third of German wages, while productivity differences are substantial but smaller.

Working time and work organisation are two crucial fields, apart from wages, where unions have had legal rights to be consulted and be taken into account. In many instances, management has been looking for a 'win-win situation' before engaging in collective bargaining. Thus, in Audi Györ collective negotiations took place for six year without an agreement and only in 2001 management became serious about collective bargaining as the Hungarian employment law was amended introducing more possibilities for negotiating working time flexibility. Similarly, in Skoda and in VW Slovakia, management used collective agreements as a flexibility tool: collective agreements cover the issues of overtime, shift organisation and time accounts.

Thus, in Skoda, an agreement with trade unions is required for introducing new working time systems for the period of one year (Skoda 2005: 19). The over-time work is also regulated by collective agreements: it sets an average maximum number of over-time per week and establishes a yearly account for the calculation of over-time (Skoda 2005: 20). In terms of working time

6 TPCA first tried to recruit people to work on 8000 CZ krona per month (Voles 12.2006) The starting wage level today is gross 12 000 CZ K which is 400 euro and 800 euro in PPP.

flexibility, the collective agreement stipulates that working time systems that extend working week to the weekend needs to be agreed with trade unions two months in advance (Skoda 2005: 18). Also, the system of 'gliding working times' needs to be agreed with trade unions according to collective agreement. Similarly, in VW Slovakia, all important changes in shift systems are agreed with unions. Collective agreement creates a limit of weekly and annual over-time thus effectively allowing for working time accounts. The agreement also allows over-time to go above the national legislation maximum of annual overtime. In terms of work organisation, a three-shift system operates (with time accounts[7]). In VW Slovakia, management used agreements with unions to achieve a level of extremely high shift flexibility. 'Flexibility is one of the main factors that explain the success of our plant.[…] we are able to do with our employees everything we need' (Interview March 2007). A three-shift system was tested since 1996 and was fully introduced in 1998. In this system, the weekend was free but employees were asked to come to work when necessary. In March 2006, the system was 'flexibilised' further as the three-shift system was replaced by a 'continuous shift' system[8]. In this system people work for seven days and then have two days free. It allows the plant to utilise the equipment and the labour to its extreme. With such a 'win-win' situation, VW Slovakia has had the most flexible arrangements among the analysed plants.

Management has also used cooperation with unions in a number of specific cases concerning working time when increased internal flexibility was required. One example is the case of strong demand decreases. Thus, in 2005, in VW Slovakia, due to reduced demand, management sought an arrangement with union which was found by reducing the number of hours worked. The trade-off agreement was reached between management and unions mainly by increasing the pay.

We can see that collective agreements have been used by management since the late 1990s-early 2000s more extensively to achieve the necessary results in working time, shift structure, etc. The 'productionist' nature of collective agreements becomes even more obvious when we realise that the 'protection' side of these agreements is relatively limited and only in some cases goes beyond the legal provisions. To the small successes count following cases. Skoda's weekly working time is fixed by collective agreement is 37.5h which is below the 40h limit set by the law. Similarly, in VW Slovakia collective agreement fixes the official working time has been 37.5h, before 2004 these were 40h[9]. Skoda's employees are entitled to five weeks holidays, while the law provides only for four weeks (P. Interview December 2006). In VW Slovakia a yearly employment

7 The overtime is first put on the time account and paid three months later
8 Not for workers on the assembly line

9 However, the real situation has not changed a lot, just the break was paid before and not after (P. Interview 03.2007).

contract is changed into an open-ended contract after the first year, while the law allows for three follow-up annual contracts.

It is this strategy of 'rationalised embeddedness' (Bluhm 2007: 198) - preserving as long as possible the comparative labour cost advantage at the same time providing certain employment protection and having a cooperative approach to employee representatives - that we describe as enterprise pacts for production that have been key variables in explaining a fast industrial upgrading. The strong 'productionist' identity has been a shared feature of managers and metalworker unions. Although no imminent employment cuts or delocalisation threats are pronounced openly, it seems the unions have internalised the potential danger of delocalization and follow the strategy of pre-emptive concessions. We believe that rather than indicating a general union weakness this fact provides evidence for productionist attitude of unions.

Another factor that could have contributed to the productionist attitude is labour inclusion in the supervisory board according to national respective labour codes. Different from the German case where in large companies one finds an almost full parity on the supervisory board between labour and employer representatives, in Central Europe, labour representatives of large companies have one third of seats on the supervisory board. Labour participation on the supervisory board exists in Škoda since 2000, in Audi Hungaria since 1995 (before the legal obligation) and in VW Slovakia since 1998. It does not give labour direct power to influence decisions but provides an additional information tool. However, what is important for us is that having access to confidential company information strengthens labour's predisposition to become a 'co-manager' rather than a 'political enterpreneur' to put it in words of Greer and Hauptmeier (2008).

The use of information and consultation rights is the third implicit enterprise pact for production that could be identified. Strengthening of these rights was achieved in the early 2000s through the adjustment of the respective national labour laws to suit the 2002 European Directive on information and consultation. Information and consultation rights were extended through adjustment of national laws in 2001 in the Czech Republic, in 2002 in Slovakia (Kohl and Platzer 2004) and in 2006 in Poland. This happened by making works councils possible in the Czech Republic, yet only in case when there are no trade unions (the so-called 'residual model') and by introducing works councils in Slovakia and Poland parallel to trade union institutions. The Hungarian labour law already included most of the provisions of the Directive since 1992, when the two-channel system of employee representation was introduced through establishing the information right of works councils. However, a 2005 amendment further strengthened the

position of labour. According to law and restated or sometimes slightly expanded in collective agreements, labour representatives have consultation rights for cases of employment contracts, mass redundancies, with regard to measures that concern a large number of employees (Jürgens and Krzywdzinski 2007: 22).

In all four subsidiaries, at least since the late 1990s, management uses the tool 'information and consultation' extensively. In Škoda, information of and consultation with labour representatives has been taking place regularly: a special Economic Committee with representatives of trade unions and management has been meeting regularly (Skoda presentation 2007). In VW Slovakia, until mid-1990s, trade unions are described by the personnel manager as being 'dependent on the management', but since then they became a 'partner', and since 2000 they became a 'strong' partner: they have learned their rights, and they use them to 'get more out of management' (Interview March 2007). Today, unions meet the personnel manager once week, while twice a year there are meetings with the whole executive board (Interview March 2007). In VW Poznan the development has been similar. Regular weekly meetings take place between the Union Committee and management representatives. Thus, unions in VW Poznan confirm to have been consulted and informed on a regular basis about all relevant developments (Interview March 2007). In Audi Györ this relationship is more institutionalised as labour force is also represented by works councils that however closely cooperate with unions in the plant. This extensive use of 'information and consultation' tool is a consequence of the 'productionist' attitude on both managerial and union sides. This implicit enterprise coalition between management and unions is very useful for the purpose of better information flow. An extensive use of this tool is a further evidence of productionist approach on both sides. Information and consultation are a managerial tool to communicate with the labour force. Only in cases of big crises such as mass redundancies can this tool be used to protect employees as trade unions can then strike pre-emptive action. Yet, until now there have been no cases of mass redundancies in VW Group subsidiaries.

Unions see their goal in promoting employee engagement in production activities. An example of union adherence to the 'productionist mode' is their emphasis on their union function of assuring production quality and discipline as especially since the early 2000s, a high turnover has been an increasingly important issue in all plants. For example, in Audi Hungaria, labour force fluctuation has been 1% per month in 2000, while the goal has been 0.4%. Unions thus have started to capitalise on their function of assuring production quality and discipline. Furthermore, the productionist part of union identity is also visible in the fact that they also started to develop a discourse based on the valuation of skills and knowledge: a Hungarian union leader at Audi Györ

stated referring to German management that: 'if they do not take our problems seriously then maybe the best solution for them is to go home because we cannot be efficient' (Interview August 2007).

Conclusion

In Central European VW Group subsidiaries, labour representatives have had a much weaker position when compared to their German colleagues. They have been junior partners in the collective agreements and collective bargaining often only started when it allowed management to achieve certain flexibilisation measures. However, it would be wrong to discount their role in the upgrading process. This paper argued that there are parallels between industrial upgrading in the four Central European subsidiaries and an intensified bargaining and information exchange among social partners at the company level since the late 1990s-early 2000s. The productionist attitude has been the common denominator of management and union cooperation that made such a strong and fast industrial upgrading in product choice and production processes possible.

While describing the emergence of enterprise pacts between local management and labour representatives in Central European subsidiaries of the VW Group we tried to show the dynamic and open-ended character of the firm internationalisation underlying the role of agency. We started off by considering the role of labour and management in Central Europe against the benchmark of the crucial role of labour in the development and upgrading of post-war VW plants in Germany. We saw that although legal rights are weak, the role of labour was important in the upgrading process. However, when going back to the debate concerning the governance of the transnational production chains, this paper points out to a further dimension that could limit a true transnational labour response to global competitive pressures: emerging enterprise pacts for production in low cost countries.

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