

## Better not cheaper

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# How Trade Unions are Defending Manufacturing Jobs in Germany

Germany's metalworker union is defending its member's jobs by an innovative campaign that aims at making companies more competitive while defending existing wage and working time agreements.

### Christoph Mulitze

Shrinking employment in traditional blue-collar jobs, decreasing membership numbers and on top of that, the constant demand by employers to downgrade hard-fought social standards because the competition in Eastern Europe and the Far East is so much cheaper - there are varied and mutually reinforcing reasons why, since the fall of the Iron Curtain, the trade unions in Germany have had to go on the defensive. When your back's to the wall, you don't have many choices. One choice is to go on the offensive, and that is precisely what the IG Metall, the metalworker union in North Rhine-Westphalia has done with its "*Besser statt Billiger*" campaign, launched in November 2004 to prove that better instead of cheaper should be the motto. The campaign has already proved successful in a short space of time.

The aim of "better not cheaper" is to make businesses in the metalworking sector in North Rhine-Westphalia internationally more competitive through investment and innovation. IG Metall sees the campaign as a counterbalance to the softer option often taken by companies that lose their competitive edge. Employees often face more work without better pay or shorter hours, fewer days' holiday, and reduction or even elimination of holidays or bonuses and special payments for night and weekend shifts. "For years now, we have observed how works committees have been at the mercy of increasing pressure from employers to forego employees' legal rights in wage negotiations supposedly to ensure the security of their jobs. We simply had to do something to counter this," explains Detlef Wetzel, Chairman of IG Metall in North Rhine-Westphalia.

## Thorough modernisation

Now, when a company in the largest German federal state demands changes to wage agreements from the works council and trade union, the workers' representatives no longer cave in - they go on the offensive. In tangible terms, that means that they demand proof of what the company intends to do to be qualitatively better than the competition in the future. If required, it must make its accounts public so that these can be examined by accountants appointed by the works committee. Unless the company is willing to be perfectly open, it cannot expect any co-operation from labour. "That is because only in a very few cases are demands for belt-tightening by the employees really based on objective economic risks for the future of jobs, such as competition pressure from low-wage countries. Usually, we find that the company management has simply missed the opportunity to join with the employees in formulating a strategy for new challenges in the market," according to Wetzel. Only if a company undertakes to eliminate shortcomings, improve structures and working procedures, encourage staff training and innovation and to invest, is the work force willing to negotiate on time-limited deviations from the existing wage agreements. "Tying competition to price alone is a mistake. 'Made in Germany' does not denote cheap products, it stands for quality goods. We haven't got an export surplus as a result of being the cheapest producer in the world; on the contrary, it's because we are one of the best. So if we don't stop this cheaper debate in its tracks, our economy will go to rack and ruin," Wetzel warns those who deceive themselves that jobs are made more secure if they are cheaper. Entrepreneurs who want to achieve a competitive advantage by fleecing their employees have sealed their fate, he believes. Wetzel adds: "Anyone who starts on the downward spiral, when it comes to the cost of labour, is backing the wrong horse - because there is always a company somewhere that will be producing cheaper."

So far, IG Metall has been discussing the "better not cheaper" strategy in more than 400 companies in North Rhine-Westphalia. Surprisingly, these are not just companies keen to change existing wage agreements.

Many of them have joined the campaign and are actively co-operating with IG Metall in order to implement the modernising campaign with their staff. "Good companies have already incorporated the 'better' strategy into their own company philosophy," in Wetzel's experience. The aim is for the campaign to be implemented in 100 companies in North Rhine-Westphalia by the end of 2007.

## The success-story of Deutz

Just what shape a modernisation offensive can take is illustrated by two very different examples. At Motorenfabrik Deutz AG the management, as in so many cases, was initially very demanding, calling for employees to accept lower wages and unpaid overtime without a proper concept as to how Deutz could improve the company's position in the future. "We saw no sense in that and took the view that a company which does nothing for its competitiveness has no right to exist," explains the chairman of the company's works council Werner Scherer. After all, three years earlier the staff had accepted belt-tightening measures without Deutz having taken advantage of the opportunities it gave the company.

Encouraged by the works committee, the company's management trawled through the entire expenditure bill and found plenty of potential for cost-cutting, which was then translated into a big relaunch programme. Distribution structures were re-organised, and the foundry closed down. This caused the loss of 229 jobs, but the staff in question were either re-trained for jobs in other departments, began pre-retirement part-time work or took early retirement.

For decades, no attention had been paid to market prices. In the case of long-term contracts with customers, material procurement accounted for 65% of total costs. This was another area which needed a serious overhaul: some links with customers were terminated, comparisons of raw materials were made and negotiations took place with suppliers. Scherer reports: "In this way, Deutz was able to save 64 million euro over three years." In addition, the company embarked on an energetic course of investment, more than ever before in the company's 140-year history: in machinery, re-

search and development. Scherer is convinced that this was the driving force of innovation. "We increased R&D from 4% to close on 8%, almost twice as much," whereas the industry average is generally below 5%.

Deutz is now doing very well again and is participating competitively in the international market. In the Cologne factory they are producing a new series engine for Volvo-Renault, an order for which they saw off French and Swedish competition. The company has also acquired other international customers, like the Italian tractor manufacturer Same. In 2000 the number of engines manufactured was under 120,000; this year the 200,000 limit is set to be exceeded. At the present time, Deutz employs about 5,700 people and the number is rising. Several hundred jobs have been created in the manufacturing and assembly departments in past years. "Forward planning envisages further job creation," adds Scherer, delighted.

### **Systematic co-operation**

While at Deutz the management had to be persuaded to innovate, both the management and the staff at the Bochum-based iron foundry of Heintzmann GmbH & Co. KG were driving in that direction from the outset. The medium-sized company, still basically run on family lines, used to be purely a supplier to the mining industry. "We had to refocus: today, we are a material refining company and our customers are located in many sectors," explains works council chairman Benno Bargmann. Five years ago the percentage of mining customers was 80%; today, it is less than 50%.

Since the beginning of 2000, the management and works council have been deliberating jointly what they have to offer as a company and who to approach as customers. "Why wait for the crisis? We wanted to steal a lead on developments. From that point of view, we have been living according to the 'better not cheaper' principle for some time," explains Bargmann. Potential customers were researched on the internet - from the oil field industry through the rail track building sector to automotive subcontractors. Bargmann adds: "A wide spectrum

of industry-based customers is important to us. That makes it easier for us to weather economic swings." The innovation motor at the Bochum foundry is the good relationship between the management and the staff. "We don't have any petty arguments. That means we can concentrate on the important issues," says Bargmann. Thanks to the upswing in the company's economic fortunes, the staff has increased in recent years by 25 to 230. Bargmann explains: "Right now, our employees aren't afraid of losing their jobs. On the contrary: we're running at capacity!"

### **Trade Unions get strengthened, too**

The strategic approach by IG Metall in North Rhine-Westphalia is however not only aimed at curbing the practice of downward pressure on wages. It is meant to strengthen internal organisation and works councils. That is achieved when trade unions and company managements stop negotiating deals above the heads of the employees and involve everyone. "For instance, there is no deviation from agreed wage deals without the assent of a company joint working party on pay. Our members within the company decide about initiating negotiations, procedures and ultimately about the result," says Wetzel. The trade union, he adds, is only there to offer advice. The consequences are evident in all sorts of ways: whereas in 1998 fewer than 80% of the employees at the Heintzmann foundry were members of the union, the percentage in 2006 is 85%. "Encouraging people to become actively involved in decision-making processes, proving that each individual is important and has the power to change things, was the correct strategy," says Bargmann with conviction. After the IG Metall union had lost large numbers of members in previous years, membership remained stable in 2005 at 605,000.

The campaign's real success is evident in the companies themselves, however. "In many companies, decisions on relocation of manufacturing units were revised and demands by management to waive existing wage agreements became superfluous because better alternatives were found," says Wetzel. He judges that thanks to the resolving of conflicts in a positive, forward-

thinking manner, "undoubtedly more than 60,000 jobs are more secure".

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