Germany: Behind the conflict at Volkswagen

Ulrich Rippert
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A public attack by Ferdinand Piëch, chairman of the Supervisory Board of Volkswagen, on the CEO Martin Winterkorn has provoked a leadership crisis at Europe's largest auto company. Piëch declared last week in news magazine *Der Spiegel*, "I keep my distance from Winterkorn."

Since then, the media has been speculating about what could have driven the 77-year-old patriarch of the company to attack and denigrate his board's chairman. Previously they had been seen as close allies. Winterkorn was considered as the likely successor to Piëch as chief executive. It was Piëch himself who appointed Winterkorn to chairman of the board of management in 2007.

Media commentators complained that "poor style" and "rude behaviour" had produced a completely unnecessary leadership crisis at a world-leading concern. Others have criticised Piëch's "obsession with power," suggesting the successful top manager was a threat to his life's work and Piëch was therefore launching a personal vendetta against him.

The conflict between the VW bosses was totally unnecessary and had to be brought to a rapid halt, wrote *Wirtschaftswoche*. The magazine *Focus* cited a manager at a fund management consultancy who viewed Piëch's behaviour as an attempt to implement one-man rule. "Napoleon Piëch does not tolerate other rulers apart from him. That was already the case with Wiedeking. He became too powerful and got the chop."

Piëch dropped former Porsche chief Wendelin Wiedeking, who tried to take over VW in 2008. Prior to this, he removed board chairman Berndt Pischetsrieder, who was replaced by Winterkorn.

The main message in the media was that Winterkorn was being "unjustly targeted" (*Spiegel Online*). He had an excellent record. Last year alone, profits rose to €12 billion and auto sales were around the 10 million mark, just marginally behind market leader Toyota. The title of the world's largest auto concern, the aim announced for 2018, was within reach this year, *Spiegel Online* enthused.

Among the successes of the Piëch/Winterkorn leadership duo was the "modular transverse toolkit, which all of the major concerns are currently seeking to reproduce. The number of employees has almost doubled in recent years. When Winterkorn joined in 2007, the company employed 329,000 workers, and at the end of last year this figure stood at 594,000 globally, almost half who work in Germany.

These successes could not cover up the problems confronted by VW, said Ferdinand Düdenhöffer, who specialises in general industrial management and automobile economics at Duisburg-Essen University. VW has a persistent weakness in the US auto market, which had been compensated thus far by successes in China. The development of new technologies had also been neglected, such as electric cars and the concept of driverless cars piloted by digital communications.

However, the main issue was that the expansion of the core Volkswagen brand was too low. Germany's largest company had increased the size of its workforce last year much more than its sales and profits, said Düdenhöffer. The number of employees had risen by four percent, but sales by only over 1 percent.

With 345,000 employees, not even 60 percent of Volkswagen's total, market leader Toyota was achieving much the same sales of around 10 million vehicles per year. At €336,300 per head, labour productivity at VW had declined by more than two percent in 2014 from the previous year. According to Düdenhöffer, the efficiency problem at VW worsened in 2014 rather than improving. Profits in the Czech Skoda plants were twice as high than in German plants.

Ferdinand Piëch, who also headed the VW board between 1993 and 2002 before taking on his chief executive role, is obviously planning extensive restructuring measures and cost savings at VW's German plants.

Already last summer, Winterkorn, who is personally responsible for the core VW brand, announced a comprehensive cost-cutting program named "Future Tracks," which was to save €5.5 billion annually. He was responding to analysts who warned that the rate of return on the VW brand's sales would decline to one percent in 2015. Winterkorn promised a pre-tax rate of return of six percent at VW plants by 2018. Across the company as a whole, it stands at eight percent.

This requires a cost-cutting program that dwarfs anything previously implemented at VW. Piëch apparently considers Winterkorn incapable of imposing these attacks on the workforce. His break with Winterkorn emerged already last autumn.

At that time, talks were held with BMW manager Herbert Diess to secure his services as head of the VW brand. Diess' planned switch from BMW to VW in October could now be accelerated. In February, former Daimler board member

Andreas Renschler took over the VW management position for utility vehicles in Hannover.

Both Diess and Renschler are ruthless corporate "reformers".

Diess has worked at BMW since 1996, where he has held various leadership positions. After a time as plant director in Birmingham, England, he was made head of the motorcycle division in 2003. In 2007, he rose to the BMW board of management, taking over the newly established role of sales and supplier networks. At the time the main issue was the savings of billions to improve returns. Diess was feared by suppliers as someone who negotiated ruthlessly, pressed for lower prices and was familiar with details, reported *Manager Magazin* .

Renschler also possesses "sufficient self-confidence and tenacity," wrote the *Frankfurter Allgemeine Zeitung*. He established the first American plant for Mercedes in the 1990s for utility vehicles in Tuscaloosa, Alabama, in the traditionally low-wage southern region of the country. He took over leadership of the utility vehicle division in 2004 in the Stuttgart-based concern. He increased returns on sales dramatically through a series of deals with so-called "worker representatives".

The oligarch of Wolfsburg, as Piëch is described by *Handelsblatt*, has virtually unrestricted powers within VW. As grandson of the company's founder Ferdinand Porsche, he is the family patriarch of the Porsche-Piëch clan. The family controls 50.7 percent of company shares, giving it the power to make the major decisions. The conflicts within the oligarch family have once again broken out. Currently, the Porsche wing are condemning the attacks on Winterkorn as not having been discussed and the sole responsibility of Piëch. But the family can only act together through the Porsche Foundation, and thus far, Piëch has always been able to impose his will.

Piëch stands out for two reasons: firstly, the aggressiveness and ruthlessness with which he imposes his decisions. In this he draws upon the fascist traditions of his grandfather. The engineer Ferdinand Porsche was appointed as head of VW by Hitler in 1938. He received as many foreign workers, slaves and concentration camp prisoners as he desired, wrote Eckart Spoo in *Magazin Ossietzky* .

Porsche was the head of the arms industry, recipient of the SS skull ring, chairman of the Reich tank commission and a senior official of the regime. His right-hand man was the committed Nazi Anton Piëch, who married Porsche's daughter Ursula. Ferdinand Piëch, the current VW chief, is the son of Anton and Ursula Piëch, and the grandson of Ferdinand Porsche. "Of course I am proud of my grandfather. The whole story never burdened me for a second—why should it?" Piëch remarked.

Secondly, Piëch has a great understanding of how to collaborate with the German trade union IG Metall to cut costs and wages.

Immediately after taking over the position of chairman of the board in 1993, he announced the slashing of 30,000 jobs following a sharp decline in sales. The response saw the introduction of a four-day week. Regular working hours dropped to 28.8 hours, the incomes of workers were significantly reduced and the trade unions proudly announced that in this way compulsory redundancies had been avoided.

In 2001, another attack followed: the introduction of the 5,000 times 5,000 contract. It was aimed at undermining the relatively high wages at VW core plants and to establish a low-wage sector.

The relationship between management, trade unions, works council and politics is nowhere as close as at VW. The state of Lower Saxony is the second largest shareholder (after Porsche/Piëch), and has considerable influence in the company. The IG Metall union, the world's largest industrial trade union, traditionally fills the position of deputy chairman on the board and is assisted by the works council, which is also represented on the board due to the legal framework of co-determination. From 1990 to 2003, the period in which the Social Democratic Party (SPD) governed in Hannover, and once again from 2013, VW was practically dominated by a triumverate of trade unions, SPD and works council.

IG Metall and the works council continue to play a key role. IG Metall obediently produced a catalogue of measures for the board to achieve increased returns, while keeping the opposition from the workforce to a minimum. Last October, works council head Bernd Osterloh handed a 400-page document proposing cost savings to the board aimed at helping the company to reach the six percent cost reduction target.

The conflict between Piëch and Winterkorn is above all about how a new level of exploitation can be introduced inside the factories. VW workers must prepare for major conflicts and recognize the trade unions and works councils for what they are: the corrupt tools of corporate management.