



Switching on to Business

EXTRA!

Chapter 10

RECRUITING & MOTIVATING STAFF

HANDOUT 1

Volkswagen management square up to staff

Falling profits forces Volkswagen to cut its labour costs

Volkswagen, Europe's largest carmaker, has become the latest German firm to try to take on its employees and their unions as it seeks to make major cost cuts. With profits under pressure, the firm has proposed a two-year **pay freeze**, while declining to guarantee jobs. The IG Metall **union**, Germany's second-largest, has said it wants a 4% **wage rise** and extensive job protection.



Talks scheduled between Volkswagen and IG Metall will be closely watched to see how willing the unions are to accept change. Many politicians and companies have called for Germany's labour laws to be relaxed, citing them as a major cause of the country's economic problems. Volkswagen used a **press conference** on Monday to make its stance crystal clear. "There is no room for a wage increase," said Peter Hartz, Volkswagen's head of **personnel / human resources**.

Volkswagen also wants a 30% reduction in **labour costs** by 2008. The company maintains that employees are paid more than their peers at rival's plants. It recently said that this year's profits will fall short of company forecasts, citing the strength of the euro against the dollar, a **drop in demand**, increased competition and high production costs as factors.

Rival car firm DaimlerChrysler, makers of Mercedes and Smart cars, last month struck a deal with trade unions, but only after its plans had prompted staff walkouts and protests. Under the agreement in that firm, managers will take a 10% pay cut, while staff will work more hours and forego wage hikes.



1. Volkswagen is concerned about costs and wants to reduce its labour costs. What non-financial incentives could it use to help its staff accept a pay freeze?
2. How should a firm like Volkswagen go about recruiting new staff?