

Insourcing The Hare: The Failures Within Volkswagen Manufacturing of America

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The use of an overseas labor force is often considered to be an American tactic. However, outsourcing is not exclusive to businesses in the United States. When foreign companies outsource to the United States, the practice is called insourcing. Volkswagen pioneered automobile insourcing in 1976 by establishing Volkswagen Manufacturing of America. The company began producing vehicles two years later in Westmoreland county, Pennsylvania. Volkswagen Manufacturing of America's story exemplifies the advantages, disadvantages, and moral/ethical challenges of utilizing an overseas labor force for manufacturing.

The 1970's were a tumultuous time for the United States. The Vietnam War enacted drafting of service aged men. The Organization of Petroleum Exporting Countries cut US oil supplies with the Oil Embargo of 1973. President Nixon reacted by establishing a national 55 mile per hour speed limit with the Emergency Highway Energy Conservation Act of 1974. Meanwhile, President Nixon's Environmental Protection Agency was busy establishing policies to regulate air and water pollution from businesses. The Bureau of Census 1973 Pollution Abatement Costs and Expenditures report indicated that these regulations added costs to business operations, accounting for 20% of the affected industries budget. When the Vietnam War ended in 1975, the Bureau of Labor Statistics reported national unemployment was at 8.5%. Americans needed jobs, and they needed economical vehicles.

The Volkswagen Rabbit was in high demand. The diesel model was EPA rated at 50MPG, a fact that Volkswagen promoted on television (volksfolks). Volkswagen's invisible hand, the process that turns self-directed gain into social and economic benefit

for others (Nickles, McHugh, McHugh 33), would spur economic growth for Americans. The Supervisory Training manual for the Westmoreland Manufacturing facility has been digitized and made available on the VW enthusiast website VWVortex. It states that the company was seeking to open US operations as early as 1973 based on marketshare and US labor costs. The manual later notes that US workers observe fewer holidays than German workers, thus offering more production hours (buzzbomb). Volkswagen estimated it could save 10% off each Rabbit manufactured in the US (Chernow 20). The economic disparity of the US was a major advantage for Volkswagen.

Everyone wanted Volkswagen's business. Mother Jones reported that a number of states took out full page advertisements in the New York Times pleading for consideration (Chernow 20). Volkswagen chose the union state of Pennsylvania, whose governor offered over \$70 million in incentives for Volkswagen to build their "Rabbit Hutch" (Chernow 19). The state of Pennsylvania bought and refurbished a facility for Volkswagen, and leased it to them for a 30-year term. Volkswagen paid a mere \$3,550 in property taxes to the East Huntingdon township in 1978, which was \$1,510 less than the sticker price for a base model Rabbit. While the incentives were great for business, the problems began to appear as soon as they began seeking employees.

Volkswagen was required to hire from within Westmoreland county as a condition of their incentives offering. The employment criteria was to be based on the applicants' length of unemployment, rather than their skill (Chernow 21). Former Volkswagen Westmoreland paint and body assembly supervisor Morgan P. Barclay has written about his experiences at Westmoreland on VWVortex. Barclay was directly involved with talent acquisition in the early days of operation. Barclay wrote, "We usually spent one week

periods doing nothing but interviewing 9 hours per day. ... I can remember going through 10+people to get one decent candidate" (cooljet 54). Of the first 1,000 employees, 40% were residents of Westmoreland county with another 30% resided in neighboring Pennsylvania counties (Wylie 1). The need for talent led to some very exciting opportunities for the first round of employees.

The first employees at Westmoreland received life-changing training. Barclay was hired in March 1977, and within two weeks was sent to Germany for a month of training and certification in welding, metal finishing and brazing. Upon his return to Westmoreland, Barclay was tasked with developing a training curriculum to be offered at the Elliot Training Center of Greensburg. The course lasted ten weeks, and resulted in 150 skilled employees ready to prepare their colleagues in production practices. Barclay was proud of this group, stating in his e-mail interview dated 28 March 2013 that "they took to the German model quickly and became very proficient at their craft. All of my students graduated with honors and over my tenure many became lead[s] or moved into supervision" positions. Barclay's opinions on other workers was not as positive.

Every company has employees that lack common sense. Barclay posted about a worker who decided to save time by sending his lunch through the curing oven in the body of a four-door Rabbit that was soaked in a rust preventing agent. The worker became violently ill from the fumes emitted from the curing process that soaked into his food. Another story he recalled involved production quality concerns. Westmoreland began developing finish flaws on the hoods during painting:

When we finally tracked down the problem, we found out that it was an operator who would not bathe during the work week. Instead he would load up his body with deodorant (Arid Extra Dry). The operator did not tape the sleeves of his suit and therefore as he sanded the hood he was pumping silicone from the deodorant onto the hood that he was preping. When we found this individual he was turned over to the union to have the individual cleaned up. (Cooljet 57)

Barclay had very strong opinions of the managerial band within Westmoreland, citing them for its demise.

There is an old religious fable about three bricklayers that summarizes the attitude of Volkswagen Westmoreland's management. When asked what he is doing, the first bricklayer takes a sarcastic tone and shouts "I'm laying bricks! Can't you see?" The second one answers with "I am building a church," and the last bricklayer responds with "I am doing Gods work." Volkswagen Westmoreland lacked the dedicated and invested German management at the helm of operations. Barclay stated in an e-mail dated March 27, 2013 that most of the management talent for Westmoreland came from Chrysler. Barclay recalls, "I can remember one of the body shop managers telling me that he never had to worry about a job since what he was learning here he would use again back in Detroit". Barclay firmly believes that "To the Americans it was just a job. VW would not have turned out the way it did had the model been followed," and attested that the American management was cocky, self absorbed, and not as technically proficient. After interviewing Barclay, it became evident that Westmoreland was managed by the first type of bricklayer. The German management model required the

attitude of the third bricklayer. The management attitude would play a key role in the conflicts to come.

Volkswagen Westmoreland was organized by the United Autoworkers Union, which halted production on several occasions. Mother Jones reported that the workers went on strike three months after the facility opened over a pay discrepancy between Volkswagen's wages and their counterparts at GM and Ford, chanting "No Money, No Bunny" (11). They indicated that the home office shuttled the workers back into the "hutch" with the threat of closing the facility down permanently. Workers would lurch from problem to problem with strikes. Volkswagen did resolve the 66-cent per hour pay dispute with the United Autoworkers Union in 1981 (New York Times 1981). The Union would not be their only employee conflict, however.

Volkswagen faced ethical challenges at Westmoreland. From their first day of taking applications, Volkswagen was accused of racial discrimination against applicants (Chernow 21). In 1983, the Black Caucus Workers filed a discrimination suit against the company. The case received national attention when the highest-level black manager committed suicide the day after he joined the suit (Franklin). Volkswagen settled the suicide suit with the family in 1985 (Associated Press). In 1989, Volkswagen agreed to pay \$670,000 to the plaintiffs and \$48,000 to the United Auto Workers to settle claims that they discriminated against black employees (New York Times 1989). The conflicts and misguided management mixed to form employee unrest, the effect on production time and quality was a death knell as the economy and consumer desires changed. The latter can be seen when one examines the media's attitude toward the product over time.

Road and Track praised the German built Rabbit in their May 1975 Comparison Road Test article: "This car does it all; it's small, light, roomy and fast, with nimble and responsive steering, ride and handling." Popular Mechanics, however, called the 79's interior "down right tacky," but praised its 33.75 miles to the gallon (Hartford 93). By 1984, the market taste had changed: the gas crisis was over and the economy was up. Car and Driver stated in 1984 that, "Boring cars are out, entertaining cars are in, and the Volkswagen GTI is probably the most entertaining car built by American workers" (Davis). Later, Car and Driver noted that two of the foreign cars on their Top Ten list for 1986 were born in America: the competitor, a Honda, being ranked higher than Volkswagen. Product sales fell 60% from 1980 to 1985 (Risen).

Strikes, quality control, and consumer changes were hurting Volkswagen. The company began to cut back production to maintain profitability. The impact of those cutbacks was felt by the local community, according to the Tribune-Review:

As sales dropped, production cuts resulted in shutdowns and layoffs. Furloughed employees relied on food pantries and donations from coworkers still on the job.

Those saddled with high mortgages began to lose their homes. By December 1982, many turned to charities for Christmas toys for their children. (Acton)

Volkswagen eliminated 870 jobs by closing the West Virginia shell stamping facility in 1985 (Risen). This was not enough to restore profitability, so in 1988 Volkswagen closed Westmoreland and moved production to existing factories in Mexico and Germany. The closing announcement rattled the community: over a dozen employees committed suicide, according to the manager of Klocek Burial Vaults (Acton). The closure eliminated 2,500 jobs in Pennsylvania, adding to the state's 5% unemployment rate.

Westmoreland became a modern Titanic. Racial discrimination and worker suicides demonstrate the moral and ethical concerns of overseas labor. Volkswagen saw the advantages, but ultimately was wounded by the disadvantages. It would be more than twenty years before Volkswagen could recover and attempt US manufacturing again. Volkswagen Chattanooga now operates on the lessons learned from Westmoreland.

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