



Labour market change

**Wollsdorf Leder Schmidt & Co
Ges.m.b.H: Offshoring from Austria
to Croatia - case study**

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This case study was carried out for a European Restructuring Monitor project on transnational restructuring (2019-20).

Report: [ERM report 2020: Restructuring across borders](#)

Introduction

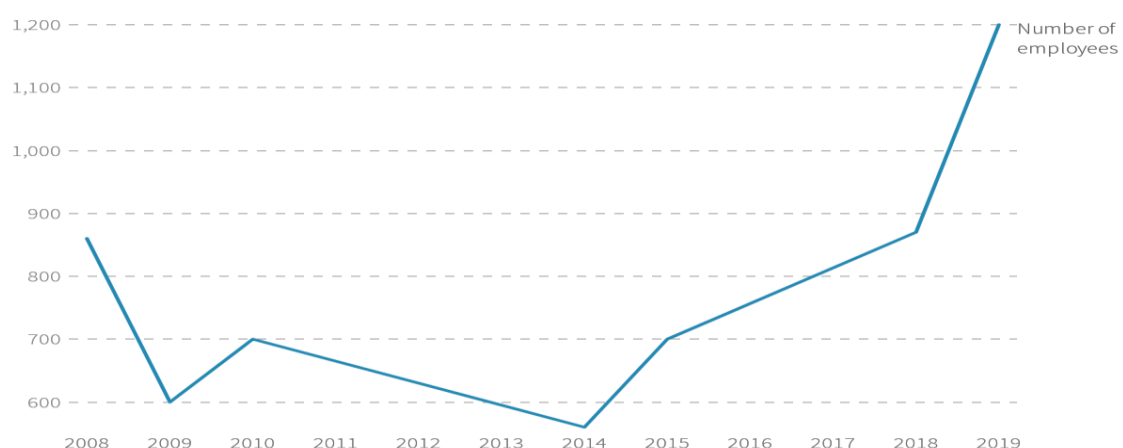
Wollsdorf Leder Schmidt & Co Ges.m.b.H., part of the Wollsdorf International Group is a manufacturer of premium leather products for use in automotive, marine and aircraft applications, upholstery and garments. Production of leather at the site affected by offshoring in Weiz dates back to the 1890s when several tanneries were already operational in the town. The company was originally established by Alexander Schmidt under the name Weizer Gerberei Schmidt & Co in 1936. Production in the location of the current company headquarter (and tannery) in Wollsdorf, which gives the company its name began in 1977.

Since then, the company established a global presence with the establishments of production sites in Australia in 1991, the USA in 1994, China in 2011, Croatia in 2015 and Mexico in 2019. Sales offices were established in Hong Kong in 2010 and Uruguay in 2018.

Employment trends at Wollsdorf International

The company was impacted by the financial and economic crisis in 2008 and was forced to shed 260 jobs at three different sites in Austria, having initially sought to retain workers through the use of [short-time work schemes](#). However, between 2008-2009, the company ultimately negotiated a social plan for workers at the site in Wilhelmsburg (Austria), which was closed altogether as well as the sites in Wollsdorf and Weiz. The figure below shows the development of global employment numbers between 2008 and 2018 based on data from the ERM and Bloomberg. As of 2019, the company employs 1,200 workers worldwide.

Employee numbers at Wollsdorf International (estimates)



Source: ERM and Bloomberg

Offshoring from Austria to Croatia

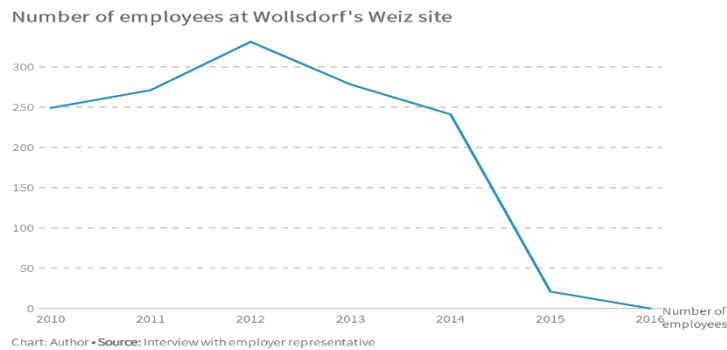
Three different departments were in operation at the company's site in Weiz prior to its closure. It was the stamping workshop which was relocated to Croatia affecting 140 employees. The marking of leather (parts of the leather which should not be stamped are marked) was relocated to Wollsdorf (around 10km from Weiz, around 65 employees) and retail sales with its 7-8 employees was transferred to a site close to Gleisdorf, 15km from Weiz. The remaining administrative jobs were relocated to Wollsdorf.

The decision for the relocations was taken by company headquarters in Wollsdorf in coordination with plant management in Weiz. According to the company representative, there were two main reasons for the owners' decision to have the relocations. The site in Weiz was not considered suitable anymore and did not offer any further opportunity for expansion. The building is on an enclosed site close to the town centre. The age of the building would also have required significant investment for renovation. In addition, the new (greenfield) site in Croatia was not only considered relatively close to the head office in Austria but also closer to the company's sewing plants in Romania. The company had been able to negotiate the purchase of a large greenfield site in Varadzin, which offered significant opportunity for further expansion. The company also indicates that increased profitability and competitiveness were also achieved as a result of the relocation. In addition, the company was able to develop new markets, but acknowledged that this would have happened irrespective of the relocation.

Worker representatives, on the other hand, consider financial motivations and particularly lower wage costs in Croatia to have been the primary motivations for the move. They argue that while proximity to the town centre did limit the possibility for expansion at the current site in Weiz, it would have been possible to find an alternative location close to the town, which was not explored as an option by the company.

Worker representatives of the regional trade union in Varadzin highlight the availability of a skilled workforce in a region where a number of tanneries and companies active in leather production are already in operation. Due to the low salaries offered in the sector in the region and the comparatively higher salaries offered by Wollsdorf leather, it proved easy for the company to attract workers. A works council representative in Croatia also considered it important that salaries in the sector are comparatively low in Austria and are of limited attractiveness for a local labour force. As a result, many of the workers at the plant in Weiz were from Croatia, Romania or Slovenia (many of them daily commuters). At the same time, work at the plant on Varadzin is very attractive for local workers in Croatia as salaries are higher than for comparable jobs offered by local companies.

Between 2010 and the closure of the Weiz site in 2016, there had initially been an expansion in employment, but between 2012 and the announcement of the relocation, employment had already dropped from a high of around 331 in 2012 to 241 in 2014 (see figure below).



When the relocation was announced, all workers in Weiz were offered jobs at the company's site in Wollsdorf as the relocation decision coincided with an increase in demand and turnover at the company. The job offer was mostly for employment at the tannery, but also in the head office. Employees taking up this offer maintained their salary and were offered a free shuttle bus for shift workers for several years following the closure of the Weiz site. Around half of the workforce took up this offer, but the remaining 120 decided to take up the offer of voluntary redundancy. This is 20 fewer than was originally announced when the Public Employment Service was informed of the redundancies.

A significant share of younger workers in particular chose not to take up the offer to transfer to work at the tannery in Wollsdorf as this site and employment offered an inferior working environment (more noise, bad smell, presence of flesh parts on the leather, etc.) than the comparatively clean and quiet production site in Weiz. The approximately 45 workers who did start work at the tannery in Wollsdorf were largely older (female) workers, who considered that their employment opportunities were very limited in the region at their age. A further four former Weiz employees moved to the new site at Varazdin via the posting of workers regulations (i.e. receiving the same salaries as they would have received in Austria).

Employee representation at Wollsdorf Leder Schmidt & Co Ges.m.b.H

Since the company does not meet the threshold set by the European Works Councils Directive, no EWC has been established in Wollsdorf Leder. In line with Austria's dual system of worker representation (with trade unions active at the sectoral level and works council at the company level), a works council is established at Wollsdorf Leder, with most members also being trade union members. The trade union representing workers at the plant is the PROGE manufacturing union. Since the site in Croatia had not been built at the time of the announcement of the redundancies, there was no workforce present to be involved in consultation around the offshoring decision.

Consultation process linked to the offshoring of jobs to Croatia

The works council at the Weiz site was informed immediately after the decision on the relocation of the stamping workshop was taken. By law (Labour Constitution Act, ArbVG §108), the employer is required to keep the works council informed on matters that are important for the workforce. Its obligation to inform the works council includes all matters concerning the establishment's current economic and financial situation as well as its probable development. The works council may request consultation on these matters. If it does not, no consultation takes place. There is thus no requirement for the employer to inform the workforce prior to such decisions being taken (as long as information is provided – consultation is then related to the mitigation of decisions taken).

Both employer and works council representatives confirm that information was provided rather than consultation taking place. The information was given about a year prior to the closure of the

company site in Weiz. No disputes arose in relation to the decision and no alternative suggestions were made. This was partly due to the fact that the company offered all employees jobs at the Wollsdorf site of the company. Both HR and Works Council representatives held individual consultations with the workers affected. One of the issues for the workforce at the Weiz site was the lack of German language skills (as indicated above, many of the workers came from Croatia, Romania and Slovenia). To assist them either in a transfer to another role with the company or for their future job search, the works council initiated German language courses for them which were funded by the company. However, this programme was cancelled prematurely due to a lack of interest in the training which was offered outside of working hours.

Negotiations on a social plan were initiated between company management and the works council but failed early on due to what both sides acknowledge to have been too high financial demands by the regional trade union representatives. Demands were linked to the workers age and linked to the length of their employment record at the company. This package would have amounted to payments in excess of several millions of euro. According to works council representatives, the potential for agreeing a social plan was missed as initial demands by the union were too high, leading the company to immediately reject to continue with further negotiations.

No training or retraining was offered by the company for workers unwilling to move to jobs at the tannery in Wollsdorf. Since such transfers had been offered, the company subsequently considered it to be the role of Public Employment Services to deliver such assistance to workers taking up voluntary redundancy. According to works council representatives the mayor and local authority representatives also did not play a role in seeking to maintain production in Weiz, largely because an increase in employment was expected at the Wollsdorf site (in the same political district) and because of the relatively limited employment impact on the local population, as more than half of the employees at Weiz were commuters from southern Hungary and Slovenia.

As the site in Croatia had not been established at the time these negotiations took place, there were no local (Croatian) employee representatives present. Once Croatian workers had been recruited, introductory training was offered for around 50-60 employees in Weiz for a period of 1-2 months. Subsequently, a number of Austrian employees went to Croatia to provide further training. While the employee representatives argued that this process functioned well, the management representative considered this to have been somewhat more conflictual with Austrian employees wondering why they should train a workforce 'that would be taking away their jobs'.

The site in Croatia currently has 380 staff members and management considers that there is the potential to double the capacity of the site with any increase in demand.

Thus far, employment at the company's sites in Austria has now been stabilised with the possibility to reduce the level of temporary employment (in favour of more permanent jobs). In Croatia, the impact of the relocation is assessed as very positive since salaries in the firm are considered higher than in other similar companies. The new site also offers good working conditions and is seen to have had some knock-on effect on other employment opportunities in the region.