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**OUT OF THE BOX AND/ OR DEEPER INTO THE HOLE?
THE LOGIC AND RESULTS OF DIVERSIFICATION BY AUTO ASSEMBLERS**

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This paper is about whether and how financialisation has influenced the car assemblers. It distinguishes between a first period of pressures for shareholder value in the 90s upturn and a second, current period with debt and car credit risks complicating recession and downturn in the 00s.

The paper is written from a specific point of view which emphasizes the messy and unresolved character of present day capitalism. Whereas some are preoccupied with productive models or institutional systems ie the restoration and maintenance of coherence, we're describing new sources of stress and strain related to dynamic developments in a world of limited forward visibility.

What changed in the 90s: (a) the limited impact of shareholder value and (b) the European sector matrix move into finance

Some (like Lazonick and O'Sullivan) announced or predicted a mechanical step change in behaviour in response to stock market pressure for shareholder value.

They have been disappointed because the record of the world's assemblers in the 90s on employment and dividend distribution shows no evidence of «downsize and distribute» operating in the US and spreading elsewhere in the era of shareholder value.

Instead, we have stability of traditional employment relations and distribution patterns in all the three major regions which can be attributed to ownership and governance arrangements plus the continued strength of organized labour

Others (like Froud et al. or Kadtlar and Spurling) emphasized the complex and contradictory effects of stockmarket pressure against product market limits.

They have been broadly vindicated because financialisation added new layers of complexity as ROCE could not be increased and internal processes were changed but not simply subordinated to finance.

The new emphasis on financial results had one permanent, simple effect. Under pressure for profit, the European assemblers (but not the Japanese) made a sector matrix shift into car credit and became more like Ford and GM in terms of reliance on credit as a profit source.

The European assemblers made this sector matrix shift because, like Pischetsrieder, they naively believed that car finance could make the difference between success and failure in terms of profitability (success = 5% on sales, 15% ROCE). But as we shall see, the outcome is more complex and contradictory

What's next in the 00s (a) car finance is insufficient for success and (b) adds new risks for firms whose new problem is managing debt

The US assemblers show that car credit is not a sufficient condition of success. Long before the 90s, they had already pulled the only easy sector matrix trick by moving into car credit without finding financial security.

Their dilemma now is that there is no other accessible, transforming matrix move into services beyond car credit. This is the lesson of the failure of Nasser's consumer services strategy at Ford.

When Ford and GM cannot raise (enough) profit by moving further into services, they then come under stock market pressure to sell profitable non core businesses (Direct or KwikFit), so that their reliance on the joint business of assembly and car credit is intensified.

Unlike GE under Jack Welch which pushed into general credit outside its own markets, the car companies stuck to car credit (ie financing their own sales) and this has created new problems.

The profits of car credit are corrupted by oversupply and cyclicity as car assembler incentives and zero finance in the US (and to a lesser extent in Europe) have kept the market going.

With credit, the US industry has finally found out how to run at full volume without making any profit.

The permanent effects of the reliance on credit are:

(1) The European car makers are all now assemblers and credit houses (like Ford and GM).

The key indicator is the share of assets in finance, with Ford and GM having 50-70% of their total assets in financial services and VW or BMW probably not far behind.

(2) Car credit turns out to be a double edged sword

Finance requires an expanded capital base in assemblers who voluntarily end their self financing status. Assemblers dependent on bank borrowings or bond sales are then exposed to new risks of credit downrating in recession and those who lease cars take further risks on residuals

(3) Treasury strategies to reduce the cost of capital acquire a new importance

As Chrysler in the early 90s shows, downgrading to junk bond status can create a secondary crisis which undermines an assembler's independent future.

The interim verdict: financialisation is here to stay (in changing forms)

Financialisation is not an episode that is over since the bull market ended or an illusion that is to be dissipated by a back to basics reprise of productionism which reconnects assembler futures with process and product market.

Financialisation is an ongoing process which changes form so that assemblers who contained external pressure for shareholder value from the stock market in the 90s are now exposed to new pressures from the bond market and the banks in hard times.

The implication is that the levers of competitive advantage (and disadvantage) and management calculation have changed and are changing in ways which researchers need to recognize.