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NEW AGENDAS FOR AUTO RESEARCH: FINANCIALISATION, MOTORING AND PRESENT DAY CAPITALISM

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The original Cockeas research proposal took a resource based perspective insofar as it asked whether European firms had the managerial and organisational competences to respond to the new competitive environment which existed after globalisation and within which national social compromises would have to be re-negotiated. This question was tied in to another about whether there was a distinctive and competitive European automobile model for managing system competences which was in some way distinct from the North American or Asian models.

The different themes and workpackages provided opportunities to investigate these questions in specific areas. Theme 2 and Workpackage Three were about "intangible" or "invisible" activities. This rubric covers everything except the traditional productionist research agenda about cars and factories, product and process, which focuses on the industry on the supply side, facing the product market. The Workpackage Three proposal promised specifically to focus on two sub areas: first, "the financial dimension of the automobile system", especially the growing pressures from the capital market for higher returns; second, a concern with "motoring vehicle use" which covers demand or all the services and goods necessary to automobility, including car credit.

To make this broad object manageable, the network concentrated its research efforts on six European assemblers (not the much larger number of component suppliers). Even so, much of this terrain was un-researched so that the network's initial effort went into empirical research analysing the ownership, governance, financial performance and behaviour of the European assemblers firms against their US and Japanese counterparts. The London workshop on "the tyranny of finance?" in April 2001 provided a mid-project opportunity for presenting the results of this research and developing hypotheses and argument which continued in the Berlin workshop in November 2001.

The end result was substantial additionality as the specially commissioned papers presented at the London workshop were quickly developed so that they formed the basis for a special issue of the journal *Competition and Change* on "new agendas for auto research" which will appear in summer 2002, in time for the Gerpisa Colloquium at which we will finally present the conclusions of our research. We do not claim to have exhausted our object, but we have established some relevant empirics and developed some initial hypotheses which can be developed subsequently by the community of researchers who will be reading the *Competition and Change* special issue.

This draft report on Workpackage Three is organised in a relatively straight forward way, insofar as it mainly explains the evidence and argument by focusing in turn on the substantial papers which are collected in the *Competition and Change* special issue. These papers should be of broad interest to social scientists because the "financial dimension" and motor vehicle use turn out to be part of a particularly interesting sectoral object. This includes important and interesting corporate test cases insofar as European assemblers confront a general problem of inadequate profitability. While motoring itself is an important object of expenditure, which generates multiple consumer identities and conflicts around the pricing and bundling of goods and services.

The first section of this report establishes the novelty of the auto research in Workpackage Three by explaining the previously dominant productionist research agenda of the 1990s and then noting the emergence of more innovative work by the end of that decade which forms the basis for our new research agenda. The second section then draws on three research papers from the London and Berlin workshops to establish the basics about financial results and behaviour as well as the role of ownership in the European assemblers. While the third section of this report then draws on three more workshop papers to consider the strategic move into car finance by the European assemblers as well as what's going on inside these firms under pressure for shareholder value.

Sections two and three of this report analyse what happens when capital market pressures for higher profit come up against firms (like the European auto assemblers) who operate in mature and cyclical product markets where margins are inevitably slim. Can this pressure be diverted or avoided by ownership or governance arrangements? How are performance and behaviour modified inside firms that must now not only reconcile stakeholder interests but also manage competing financial and productionist agendas? How do firms reinvent and reposition after financialisation by changing the products and services in their portfolio, especially in Europe where the car assemblers became credit houses in the 90s?

The fourth and final section considers the complexities of use and takes a broader view of distributive conflicts outside the auto firms as analysed in two London workshop papers. The issue here is not simply about the conflict of interest between consumers and manufacturers on new car prices. What are the cross subsidies and transfers which arise from the pricing of different elements like fuel, service and spares? These pricing decisions raise distributive issues because these products are consumed in different bundles by affluent buyers of new cars and by poorer consumers for whom motoring is the burdensome price of labour market participation. And, in the background, how does corporate capital strive to improve cost recovery by passing costs elsewhere to government, other capitals or consumers?

But, before we can turn to explaining the new agenda, we must look back to the end of the old research agenda in the 1990s so that we can more clearly define the nature and origins of the new break.

THE OLD AUTO RESEARCH AGENDA IN THE 1990S AND THE BEGINNINGS OF THE NEW

At the beginning of the 1990s, the product market success of Japanese cars, followed by the opening of Japanese transplant assembly factories in the US and Europe, revitalised an established agenda of productionist research on autos. The immediate stimulus was the publication in 1990 of Womack, Jones and Roos' book, *The Machine that Changed the World.* The ensuing debates about "lean production" dominated auto research and attracted a general audience over the next few years. Less widely noticed, as interest in Womack *et al.* waned, by the late 1990s there was innovation in the form of a new specialist literature on motoring and a general literature on shareholder value and financialisation. This section aims to analyse the limits of the old agenda and explain how new themes were being introduced by the end of the decade.

Womack *et al.* produced a business school text about Japanese success which announced lean production as a new and superior way of making things and promised that, if Western car firms intervened productively in their factories, they could like the Japanese halve their build hours and achieve success. Their main object was production, on the implicit assumption that manufacturing supply could create its own demand. Japanolatry licensed their praise for wasteful Japanese car distribution and their *en passant* throwaway claims implied that lean production could generate more fulfilling jobs, with no mention of mass redundancy which must be the inevitable consequence of productivity growth in mature markets.

This was a good, bad book whose extravagant rhetoric, oversimplification and illogicality guaranteed a double success in the business and academic markets. In the business market, Womack *et al.*'s generalisations were a lever of change for Western management embarked on change programmes where lean production served as (what Zilbovicius has called) a "sincere lie". In the academic market, Womack *et al.*'s non-sequiturs guaranteed a warm reception from academics for whom the book was an object of critique. As it happened, events then discredited *The Machine that Changed the World* even more effectively after the end of the Hesei boom in 1991. The inadequacy of Womack's physical, supply side explanation of success was nicely dramatised in 2001 with management threats to downsize Nissan's UK Sunderland factory, which then had the lowest hours to build in Europe.

European academics responded to Womack *et al.* by producing two book length, alternative views of the auto business since Ford and the model T. A British team of social accountants (Williams *et al.*) in 1994 published *Cars* which drew on the methods and results of their earlier work on manufacturing. In 2000, Boyer and Freyssenet collaborated on several articles (2000a; 2000b) and a book, *Les Modeles Productifs* (2000c), which represented a personal synthesis of research by the Gerpisa network since 1993. These two alternative syntheses represented very different intellectual traditions but, interestingly, both teams stayed on the same productionist terrain as Womack *et al*. Their novelty was that the

European books in different ways problematised demand (for new cars) and the company's relation to the product market.

Cars (Williams *et al.* 1994), emphasised the basic continuity of manufacturing techniques in auto assembly since Ford and the model T. Assembly was conceived as a form of repetitive manufacturing whose recurring problem was how to sustain factory flow against restrictions in the final product market. Management's active role was limited when it "so often struggles against structural limits and constraints" (Williams *et al*. 1994: 10), which included not only home market characteristics but also wages and hours worked. The contest between America and Japan in cars was reinterpreted as a competition between two "social settlements" where pre-1990 differences in wages and conditions made American defeat nearly inevitable (Williams *et al.* 1994: 206-45).

Boyer and Freyssenet (2000a) adopted the *Cars* operating break-even measures and then built models to develop the idea of several ways to success. Thus, in the 1974-92 period VAG succeeded with a model of "volume and diversity", Toyota with "permanent cost reduction at constant volume" and Honda with "innovation and flexibility" (Boyer and Freyssenet 2000b). Underlying this diversity are a few simple invariant basic conditions. A successful model must be coherent with national income distribution and the growth mode "in those countries where the firm evolves" and it must rest on the foundation of an "enterprise governance compromise" about product policy, productive organisation and employment relationships, which allows implementation of the chosen profit strategy in a coherent manner (Boyer and Freyssenet 2000b).

The French model building attempt to understand differences was very different from the UK social accountants' continuism about repetitive manufacturing. But both converged on the same insight that the product market was a problem that had to be solved; and that many auto companies did not or could not solve this problem because of social problems about enterprise governance compromise or the social settlement. The insight may have been valuable, but by the time Boyer and Freyssenet's book appeared, the world had moved on and there was limited interest in debating responses to a ten year old book by Womack *et al.* when the Japanese were manifestly no longer threatening anybody.

What were the new, emerging intellectual objects for researchers by the late 1990s? By 2000 the British team of social accountants and Boyer himself had moved on because they were contributing to a new financialisation literature about pressures from shareholders on corporate business via the stock market, not pressures from the Japanese on manufacturers via the product market. While in Britain, there was a flurry of new and interesting publication about motoring (not cars). These two literatures on financialisation and motoring were the points of departure for our new research agenda in Workpackage Three.

The new financialisation literature dealt in generalities about corporate business and did not immediately discuss car firms. But it had obvious implications for auto assembler research, not least because capital market pressure introduced new measures of corporate success in the form of share price and return on capital (not physical productivity or margin above breakeven). More parochially, several auto researchers in Britain were quite independently showing a new interest in motoring, that is, the demand for all the competing and complementary goods and services necessary to car use. If we exclude Bernard Jullien's pioneering work in France, motoring and use had hitherto been dealt with mainly as a sub intellectual object in grey literature.

The relation between corporate big business and the capital market became an issue towards the end of the 1990s bull market when there were increasingly loud demands for shareholder value. The February 2000 special issue of *Economy and Society* opened up a new debate on financialisation in political economy and made a considerable impact because it offered several different views of shareholder value and financialisation. For Boyer (2000), the object was a putative new “wealth based growth regime”. For Lazonick and O’Sullivan (2000) it was a behavioural change to “downsize and distribute” by giant US corporations which had hitherto sustained innovation. For Froud *et al.* (2000) it was an accumulating contradiction because firm and sectoral returns could not easily be raised; while for Morin (2000) and Jürgens *et al.* (2000) it was a spill over effect (in France and Germany respectively) that might modify national systems.

As we shall see later in this report, these differences of position and perspective are important, but immediately the combined effect of these interventions was to open up new questions about corporate performance and behaviour, governance and national differences, which were all relevant to European assemblers and have been taken up in the Cockeas network’s Workpackage Three.

Motoring and use (not cars and factories) also became an issue from the late 1990s at a time when the auto companies realised that selling new cars captured only a small proportion of the total consumer spend on motoring goods and services. The rather confusingly titled book, *Death of Motoring?*, by Niuewenhuis and Wells (1997) suggested that the auto industry had no future unless it shifted towards selling personal mobility instead of just cars. Froud *et al*. in 1998 criticised new car supply chain analysis and introduced a new concept “the motoring demand matrix” for thinking about all the competing and complementary goods and services necessary to mobility, at the same time as they observed empirically that the US assemblers depended on the profits of car credit. The broad appeal of these new research objects was confirmed by a new sociological interest in “automobility” represented by Dant and Martin’s (2001) pioneering work.

If the new literatures on financialisation and car use established the possibility of new research agendas, the remainder of this report shows how the work produced for Workpackage Three takes up this challenge so that we can now frame new questions for the 2000s which finally leave Womack *et al.* behind.

FINANCIAL RESULTS AND THEIR CONDITIONS: AN INDUSTRY CASE STUDY OF THE ASSEMBLERS

The first challenge in Workpackage Three was the absence of basic empirical information about the financial performance and behaviour of the European assemblers as well as about the ownership of these firms. Two papers by Froud et al. (2001a, 2001b) presented at the London and Berlin workshops analysed financial results and behaviour, while another London paper by Dupuy and Lung (2001) presented an analysis of assembler ownership. All these workshop papers covered North American and Japanese assemblers as well as their European counterparts so that taken together they provide a pioneering case study of a major global industry which is under pressure from the capital market. These methods can now be applied in studies of other industries, but their arguments and findings about autos are already interesting in themselves.

But before we turn to report their arguments and findings about the European assemblers, it is necessary to establish some kind of context within which the research contributions of Workpackage Three can be understood. Thus, the next few paragraphs turn back to the more general literature on financialisation and discuss the relation of financialisation to mainstream discussions of governance before considering some of the differences in position within the general literature on financialisation.

The financialisation literature represents a series of critical political economy takes on an object that overlaps with what is more generally and variously discussed as governance. The Anglo-American literatures on corporate governance in the 1990s are voluminous and diverse. But, in sources such as American finance literature or official agencies such as the OECD, the message is that the firm exists for the benefit of the shareholders who own the firm and who should exercise control so that the interests of management are beneficially aligned with those of the owner shareholders around the pursuit of profit.

This narrative of capitalism is already challenged by events since 2000. The pursuit of shareholder value through income and share price appreciation appeared plausible in the decade long economic upswing of the 1990s in USA and Europe which also coincided with a bull market. It looks as though it is now going to be much more difficult to create value in recession in the early 2000s. Furthermore, as US regulators must now admit, the decade-long pursuit of return on capital employed (ROCE) led to corporate accounting finagles which overstated earnings, shifted debt off-balance sheet and hid risk. Meanwhile, the use of stock options to align management with shareholder interests motivated senior management at Enron to enrich themselves while more junior employees lost their life savings in worthless 401(k) schemes.

But this narrative of capitalism also needs to be criticised through careful empirical research into existing patterns of ownership and performance, as well as behavioural differences and correlates inside and outside the firm. Before we report on the Workpackage Three papers which take up this challenge for the auto assemblers, we must begin by recognising that terms like shareholder value and financialisation have been used in several different senses by authors who advance different definitions of the process and its consequences. The workshop papers on the auto industry must be understood in this context.

In terms of general definitions of the process of change, one issue concerns the relation between financialisation and shareholder value. Some authors elide financialisation with 1990s shareholder value, the bull market, the new economy bubble and the cult of new issues and equity shares which it sustained; while others are concerned with broader patterns of household savings and corporate interactions with the capital market (bonds as well as shares) so that 1990s shareholder value appears as one phase in a longer, ongoing process. Boyer’s (2000) article on a wealth based growth regime encourages the identification of financialisation with shareholding and licenses the idea that, once the bubble has burst, we can start talking about something else. Froud *et al.*’s work on the “coupon pool” (2002) instead suggests that financialisation can take many forms with bonds potentially more important than shares in a period of low inflation and low interest rates.

In terms of the consequences of financialisation, another important issue is about whether the response to capital market pressure is coherent or contradictory: some authors associate financialisation with a simple behavioural response by corporations; while others associate it with accumulating contradictions and complexities for management. The first position on behavioural response is represented by Lazonick and O'Sullivan (2000), who argue that stock market pressure led US corporations to shift from "retain and reinvest" to "downsize and distribute". The second position on contradiction is represented by Froud *et al.* (2000) who have put much emphasis on the activity governed and persistently low rates of return on capital in many activities. Those who believe in contradiction and incoherence would expect it to be increased by the variable and incomplete concessions to Anglo-American governance norms and household savings patterns in France, Germany and Japan.

These differences about financialisation are important in two respects when evaluating the arguments and findings in our Workpackage Three papers about European car assemblers and the capital market. First, the absence of a simple externally observable mechanical response to financialisation, in terms of increased distribution to shareholders, is entirely compatible with accumulating internal contradictions for management. Second, if ownership arrangements protect under-performing firms, the failure to generate shareholder value from operations is not the end of the matter insofar as firms are caught in a network of relations of dependence on the bond market or banks. The implication of this argument is that, if shareholder value was a contradictory phenomenon of the 1990s, broader processes of financialisation may yet continue through the 2000s.

With these points made we can consider the workshop papers by Froud *et al*. and Dupuy and Lung, which present new evidence on the financial performance and ownership of the world's major car assemblers. The first paper by Froud *et al*.(2001a) considers the financial performance of Europe's assemblers against their Japanese and North American counterparts in terms of ROCE and share price over the decade of the 1990s, while Dupuy and Lung (2001) consider the ownership arrangements of the world's 16 major assemblers. The second Froud et al. (2001b) paper adds further information on the trend of employment and distributions to shareholders in these firms.

Froud *et al.* (2001a) show that shareholder returns in all the world's major auto assembly firms in the 1990s came mainly from the (undiscriminating) expectations of the stock market, not anything that the assemblers were doing internally in terms of operations. Their graphs show that many car firms track or outperform their relevant national index of large cap stocks in the 1990s because (most, if not) "all boats rise and fall with the tide". If BMW manages this in Europe, so does Ford in the USA or Toyota and Honda in Japan over the 1990s.

But Froud et al. (2001a) also confirm the general supposition that, as a group, the assemblers have under-performed financially, in that their post-tax ROCE over the decade of the 1990s is well below the 12-15 per cent level then required by the US stock market. They exclude flash in the pan performances by firms, like PSA or Chrysler, whose products are temporarily in demand, and prefer to consider performance over the whole decade. On this basis, as table 1 shows, European assemblers like BMW, Fiat, Daimler/Chrysler, PSA and VAG all have post tax ROCE's in a range from 3.7 to 7.0%. This is much the same as that achieved by their North American competitors who are under pressure to deliver shareholder value and their Japanese counterparts who are not.

This basic empirical finding about ROCE from Workpackage Three is of considerable importance in two respects because it challenges what many have believed. First, it displaces the old 1990s preoccupation with explaining the exceptional success of one or few assemblers, which Boyer and Freyssenet assimilate from Womack, Jones and Roos: in terms of financial results, the explicandum must be the general under-performance of all the assemblers. Second, in terms of post tax ROCE, there are no significant inter or intra regional differences because assemblers headquartered in Europe do not generally earn higher or lower ROCEs than those headquartered in Asia or North America: in terms of financial results, some common condition or cause reduces all assemblers to the same mediocrity where they are operationally viable but financially incredible.

Looking back from these results to the more general literature on financialisation, we can see that the assembly industry evidence confirms the supposition of those who argued generally that the results would be contradictory and incoherent because the stock market is unable to enforce higher returns. The principle that governs the rate of return on capital employed is not what the capital market rather ambitiously requires, but rather what the activity characteristics and product market allow: as Froud *et al.* (2001b) explain in their London paper, the problem of global car assembly in the 1990s was the group behaviour of the assemblers, with too much direct competition in most product market segments eroding margins in all the mature triad markets. The water of generally intense product market competition drowns the whisky of specific firm competences (or regional and national institutional differences)

Put another way, under competitive conditions, organised capital and labour cannot set their own rewards. The stock market in the 1990s did no better than organised labour in the 1950s and 1960s, when labour played a leading role and had to be conciliated though it was, of course, always unable to get everything it wanted. Indeed, in many ways, the story of the assemblers is that, as Gary Lapidus argued in a recent discussion of Ford and GM ( ), the 1950s and 1960s continued into the 1990s and beyond because these are firms where the claims of equity shareholders are subordinated to those of labour. Much the same is true of the European assemblers where the evidence suggests that, whatever the rhetoric about shareholder value, national social compromises have not been renegotiated in car assembly even if they have been renegotiated in other sectors. Froud et al's (2001b) Berlin workshop paper demonstrated this empirically by presenting data on employment and distribution to shareholders in 11 of the world's leading assemblers since 1989 (tables 2 and 3).

Employment totals are ambiguous because company boundaries change, especially in the case of GM which contracts by disposal, but also in the case of VW and BMW which grow by acquisition. Nevertheless, as table 2 shows, the world's car assemblers (with the exception of Chrysler and Fiat) maintained or increased auto employment over the 10 year period 1989-99. The response to recession after 1989 is very muted with employment maintained or marginally increased in most companies and 10% reductions at Ford and Chrysler. The inability to shed labour in recession is of course a long standing characteristic of the global assembly business not a peculiarity of the Europeans and helps to explain periodic profits collapse which is a long standing characteristic of firms which operate in cyclical product markets. Whatever the rhetoric about productivity increase and taking labour out, in car assembly this does not translate into labour shedding even under the pressure of profits collapse in turn down. And, in this respect again the European assemblers are no different from the rest.

An analysis of dividend distribution gives us another view of this old fashioned pro-labour and anti-shareholder weighting of stakeholder interests amongst Europeans and the rest. Cyclicality makes distribution very variable and complicates matters because most car firms distribute most of their profit in cyclically bad years. But if we look for secular patterns in table 3, we find that dividends as a percent of sales are higher in the US, but dividends as a percent of profits are in a normal range of 20-40% in the US, Europe and Japan. This 20-40% range covers BMW and VAG or Ford and GM or Toyota. Shareholders do not get higher distributions in the USA where pressure for shareholder value is long established, distributions are not clearly rising in Europe where the pressures are more recent nor are distributions consistently much lower in Japan. Car assembly is an industry with a global bias against excessive distribution so that "downsize and distribute" does not figure in the repertoire of US or European assemblers and once again regional peculiarities are hard to discern.

What we see is the stability of traditional employment relations and distribution patterns in all the three major regions, including Europe, where the pursuit of profit for capital is generally undermined by industry specific factors in the product market and by the strength of organised labour inside the factory gate. One of the questions arising is why the industry does not restructure so that the leading firms acquire the market power that generates higher returns. Here Dupuy and Lung's (2001) London workshop paper on the ownership of assemblers becomes important as a source of evidence because it documents the importance of friendly shareholders.

Dupuy and Lung's (2001) data allows them to generalise about the ownership of 16 major assemblers and their conclusion is that most assemblers, including most European assemblers, are only partly exposed to the stock market when their ownership protects them from the wrath of value investors and from hostile takeover. We already knew that one founding family still holds a controlling interest at Peugeot, BMW and Fiat as it does at Ford and maybe Toyota; while national or regional government protects incumbent management at Renault and VW. But Dupuy and Lung (2001) show for the first time that, especially in Europe, a "national logic" of ownership prevails in what is often described as a globalised industry: as table 4 shows, 89 per cent of French institutional investment in autos is in French firms, while the corresponding figure in Germany is 98 per cent.

From Dupuy and Lung (2001), we gain a new understanding of why most European auto assemblers are not for sale and how friendly ownership protects financially under-performing assemblers from external stock market pressure. This helps to explain how European (and other) assemblers survive despite their failure to deliver value for shareholders from their operations. But the absence of mechanical response still leaves unanswered questions about management moves and what's going on inside the firms which we take up in the next section of this report.

GOVERNANCE, STRATEGIC MOVES AND THE MANAGEMENT OF OPERATIONS

The question of what's going on inside the firms was considered from a variety of different view points by Cockeas network researchers at the London and Berlin workshops. Jürgens, Lung, Volpato and Frigant (2001) provide a descriptive account of how four

European car companies have “opened up to shareholder value principles in recent years” and consider the impact of these principles on traditional governance. Kädtler and Sperling (2001) provide a more theorised organisational behaviour account of “internal financialisation”, which is illustrated with case study material from traditionally productionist German assemblers. Froud et al. (2001b) in their paper for the Berlin workshop considered the European assemblers’ strategic move into car finance. The contrast between their methods and objects is important because whereas Jürgens *et al.* (2001) register policies without consequences, Kädtler and Sperling (2001) discern subtle change and Froud et al (2001b) uncover major change.

From a governance perspective, Jürgens *et al.* (2001) provide a study of four European assemblers “under pressure from capital markets”. Governance is necessarily about regimes of accountability to shareholders or other stakeholders, and the Jurgens question is whether there was a re-weighting of stakeholder interests in the 1990s which was subsequently reflected in improved financial performance or different behaviour. Their research does not focus on the use of debt to finance the expansion of car credit at these companies and their analysis of VW, Renault, PSA and Fiat is effectively confined to interaction with the stock market This interaction is considered under the special conditions of family ownership at PSA and Fiat and state protection at VW and Renault. These ownership conditions, in combination with weak financial performance, make issuing more shares unattractive to the existing owners who would dilute their controlling interest and already meagre returns with new issues.

If these ownership conditions also protect from threat of hostile takeover, nevertheless, all four European assemblers in the later 1990s rhetorically at least espoused a “shareholder value policy” of one kind or another as new languages, targets and financial incentives were driven down the organisations, with varying emphases. Any analysis of the consequences of this change in priorities is complicated because the industrial strategies of the four European assemblers were so different: Peugeot was moving further into autos while Fiat was part of a diversified conglomerate where the Agnellis were preparing to exit autos and have sold GM a put option on their cars business. The consequences of shareholder value policies under these diverse conditions are, as yet, unclear. But, the interim conclusion of Jurgens *et al*. (2001) is that (rather like evangelical religion) shareholder value appears to appeal most strongly to the underprivileged: the leading convert to value is Fiat whose market position and financial performance is currently very weak so that the possibilities of transformation are limited.

Kädtler and Sperling’s (2001) account of internal financialisation in German assemblers sets up a rather different kind of analysis from an organisational behaviour point of view. In a forthcoming article in *Competition and Change*, these authors (Kadtler and Sperling) argue that financialisation is not an objective imperative but an object of negotiation inside firms. In their London workshop paper they showed how and why this is so inside auto assemblers (Kädtler and Sperling 2001). Their case material illustrates arguments about the limits of financial control on operating systems when financial targets are about what is required (not how it is to be delivered) and when car development and production depends on organisational learning and complex systems of action. Thus, for Kadtler and Spurling, auto aassembler operations require some “room for manoeuvre” to draw on competences and co-operation for complex tasks. If this room for manoeuvre is being eroded by pressure for financial results in German auto assemblers, much now depends on whether “actors at the operative level" can provide the necessary "counterweight to the top management's primary orientation towards financial parameters".

Behind the shareholder value rhetoric, the governance approach of Jürgens *et al.* (2001) can only discern a predictable stand off between the stock market and companies that are under little effective shareholder pressure to do what the product market in any case will not allow. The more theorised organisational behaviour approach of Kädtler and Sperling (2001) discloses internal stress in European assembly firms that are not mechanically downsizing and distributing. And their approach raises questions about whether and how the German assemblers can continue to mobilise their competences to make the mid and upmarket cars on which their industry's international success has hitherto been based. Incidentally, their paper is also an effective response to those who ask what happens to social agency and actors in a world of financialisation. The Kädtler and Sperling (2001) approach is that agency and actors become more important as the firm is increasingly the unstable amalgam of conflicting agendas and imperatives, as old distributive conflicts take new forms. The sociological study of industrial relations is not displaced, but instead renewed in a broader context which we analyse in the next section of this report.

The Berlin paper by Froud et al (2001b), drew back from operations to examine corporate strategy on activity mix under pressure for increased profitability and their approach discovered more rapid and far reaching change resulting from the addition of car credit operations to the established assembly operations which are described by Kadtler and Spurling (2001) . In terms of strategic moves, the key development for European assemblers in the 1990s was their push into car finance. In those European assemblers, principally Fiat, BMW and VW, where we can track the number of vehicles financed over 10 years, the percentage of new vehicles financed rises over the decade of the 1990s: as table 5 shows, the rise is from 10-27% at VW, or from 16 to 35% at BMW excluding leased vehicles. By the end of the 1990s, the European norm is that 25-40% of new vehicles are now financed by a credit subsidiary and, if we add in leased vehicles, the percentage is higher. In the 1990s, the European assemblers all became hybrids who mixed assembly and car finance. This strategic move aligns the European assemblers with their Us counterparts (Ford and GM) whose long established credit businesses account for 50-70% of their assets and differentiates the European assemblers from their Japanese counterparts (Toyota and Honda) whose finance businesses are much smaller.

Was this shift into car finance a shrewd strategic move? As the incoming chief executive of VW explained at the 2001 Frankfurt show, European assemblers believe that car finance could make the difference between success and failure in terms of assembler profitability. Against this, Froud et al's Berlin workshop paper (2001b) suggested that finance was a double edged sword and their paper raises questions about whether the shift into car finance has taken European assemblers beyond their established competencies and increased assembler exposure to risk. Car finance was attractive because it promised non cyclical, solid profits. But these profits required the car assemblers to first borrow what they lent on to retail customers so that they had to expand their capital base which deteriorates their ROCE and their adjusted ROCE's (including debt due within the year) are feeble. The shift into car finance also voluntarily ended the assemblers' self financing status and generally made the European assemblers dependent on bank borrowings or bond sales. This exposed them to interest rate variation in cost of capital on a spread business where the profit is made by borrowing cheaply and lending dear and where the ability to borrow cheaply increasingly depends on credit ratings. The crisis at Chrysler in the early 1990s, when Chrysler's bonds were downgraded to junk and Chrysler was effectively forced out of the car finance business, is a salutary reminder of how things can go wrong for firms which are dependent on car finance.

The review of management moves by Cockeas network researchers suggests some interesting provisional conclusions. The financial performance of the European assemblers is stubbornly (and predictably) untransformed by all this fuss about shareholder value. But the new pressure for profit has stretched competences in the organisation of development and production in Germany; and at the same time the push into car finance has produced hybrid firms (assemblers and credit houses) who have a different kind of exposure to risk which can no longer be simply reduced to the vicissitudes of product market cyclicality.

DISTRIBUTIVE ISSUES: CONSUMER AGAINST CONSUMER, CAPITAL AGAINST CAPITAL

The analysis of motoring demand and use was an important objective for Workpackage Three because it broadens out the analysis of distributive conflict. In the old auto research agenda, distributive conflict was considered only at the site of the car factory where management and workers bargain about wages and effort in an explicit way. But, the new research agenda considers distributive conflict at many other sites including the car dealership and the legislature where product margins and business regulations are set so as to pass costs and benefits between different groups of consumers and different fractions of capital in ways which have hitherto not been socially recognised and debated.

If many distributive transfers and conflicts were invisible in the old auto research agenda, that was mainly because the old agenda of the 1990s rested on a kind of hypostasis of the consumer so that the only consumer who mattered was the new car buyer at the end of the production chain. Researchers simply ignored the fact that most motorists never buy a new car and that most of those who buy new cars come from upper income households. Or anyway, researchers could not use these facts inside their analysis because they lacked a broad concept of demand and the motoring sector. The preoccupation with new car buyers inevitably encouraged the recognition of only one conflict of interest (outside the factory) between the manufacturer and the buyer of new cars whose interest was in low prices at the expense of assembler margins.

In practice, the conflict over new car prices is too narrow to make an interesting research object and in present day capitalism the conflict over prices of new vehicles (or fuel) so far makes for strong tabloid headlines and weak political interventions. The recent EU review of block exemption unsurprisingly confirmed the basic principles of the existing European distribution system. Assemblers, whose margins are modest, have once again been allowed to control (or anyway dominate) systems of exclusive distribution by franchised dealers who restrict competition between car wholesalers and retailers in all the advanced countries. Protests about fuel prices by truckers and other small businessmen may have influenced Treasury attitudes to raising fuel taxes in France and the UK. But, policy makers show little interest in the idea of motoring as a regressive burden on low income consumers which results from fiscal decisions on fuel and vehicle taxes, as well as pricing conventions and regulations about spare parts costs and road worthiness tests.

Against this background, the London workshop papers by Froud *et al.* (2001c) on the "motoring poor" and Jullien (2001) on "consumer against consumer" register a series of points which can serve as the basis for further inquiry into important and under-researched issues about distributive conflict and cost passing. Froud *et al.* (2001c) use British empirics to show that some low income consumers do very badly out of the usage system; while Jullien (2001) cites additional French evidence on cross subsidy at the car dealerships where the poor pay for the rich.

The concept of "the motoring poor" is hardly nonsensical or paradoxical when the UK has one car for every employee in the workforce and more than half of poorer waged families in the UK run a car. Froud *et al*. highlight the problem of those with low incomes who live in areas with poor and expensive public transport, such as outer London: these are the "motoring poor" who need a car to get to work in a non-local job market and must make sacrifices in other areas of consumption to run an old, thirsty and unreliable car. As table 6 shows, a much higher percentage of the semi skilled and unskilled drive to work in the outer London district of Epping Forest than in the Borough of Hackney.

The car-job nexus is such that the car is needed to obtain a better job that, in turn, precariously funds the cost of motoring; then, at the end of a working life, pensioners have to make heroic sacrifices to remain mobile and retain their social lives. This is a world of constraint and sacrifice for mobility very different from that of the (new) car adverts, which identify motoring with freedom and self-expression. As the UK Family Expenditure Survey shows, in the bottom quintile of households by income, one in three households run a car and those that do run a car spend 29% of their disposable income on motoring with fuel alone accounting for one third of the total.

If the experience of the motoring poor is very different from that of new car drivers in Britain, Jullien (2001) in his London workshop paper uses French evidence to highlight cross subsidies between the two groups in France. His starting point is the observation that, for French dealers, service and spare parts generate the profit that covers the expense of selling new cars which are effectively sold at cost. The spares and repairs are disproportionately consumed by poorer owners of older cars, while richer purchasers are able to buy new cars more cheaply. The end result is "a system (of use) in which it can broadly be claimed that the poor are paying for the rich". Thus, the world of motoring not only includes transparently regressive burdens on the poor such as fuel tax; it also includes a variety of hidden transfers through spares prices and such like which increase the burden.

Many researchers will choose to concentrate on one aspect of the new agenda: those who are interested in capital markets will often not be interested in the motoring poor or vice versa. But the two aspects are of course interrelated and their connection defines present day capitalism as a non system where distributive conflict intensifies whenever cost recovery falters.

The new agenda suggests that the underlying problem is a general one about corporate cost recovery right across Europe. In this sector, the car assemblers set the rules and transfer prices for consumers and other capitals so that they buttress the profitability of new car manufacturing. But, the assemblers also compete directly so that they give away their gains to new car buyers and the end result for all the assemblers is no more than mediocre profitability, cyclical risks and threats from other actors such as banks and supermarkets who could attack sources of profitability.

The old paradigm of auto research in the 1990s jettisoned an obsolete vision of the possibility of generalised prosperity and preferred instead to envision islands of partial national or corporate success. This was the logic of Williams' or Boyer's emphasis on the social settlement or models of successful companies. Instead the new agenda hypothesises that general unsuccess in generating profit encourages cost passing which, in turn, intensifies the inherent conflicts between groups of consumers and different capitals.

CONCLUSION

The narrative of capitalism built around shareholder value in the 1990s promised increased performance and general advantage. As this issue shows, the reality in European car assembly is untransformed performance and increased distributive conflict and the papers produced for the Workpackage Three therefore convey a distinctive message about present day capitalism and its accumulating (non fatal) contradictions and incoherence.

At this stage, it is possible to sum up what we have learnt from the new agenda research undertaken for Workpackage Three:

1. The empirics on the financial results of European assemblers (contrasted with US and Japanese competitors) do not fit preconceptions about exceptional success or regional differences. The good news is that European assemblers perform no worse than their global competitors. Though, that is hardly call for celebration when all the world's assemblers are reduced to the same mediocrity by their competitive behaviour in mature product markets.
2. The empirics on employment trends and distributions to shareholders again fail to establish any basis for differentiating European assemblers from the rest. In Europe, as elsewhere, whatever the rhetoric about generating more for shareholders, there has been no massive reworking of the social compromise against labour and for equity shareholders. To that extent "shareholder value" was a damp squib and the old social compromises survive in this one industry
3. The broader processes of financialisation have however influenced the management moves of European assemblers inside their assembly operations and strategically through their 1990s push into car finance. The end result is new sources of strain at the operating level plus a transformation of European assemblers into hybrids (part manufacturers and part credit houses) whose reliance on car finance creates new risks. It is uncertain whether the European assemblers have the competences required for the next phase of managing operations and balancing risk.
4. Analysis of car use discloses a broadening sphere of distributive conflict outside the car factory. This is part of a new world of cost passing which sets capital against capital and consumer against consumer. All this takes place against a background of feeble cost recovery by assemblers for whom cost passing is way of buttressing profitability.

The old research agenda on autos claimed attention because it was widely believed that car manufacturing was part of the reason why the capitalism worked during the long boom: those who believed in Fordism argued that the 30 glorious years showed us how the technical, productive potential of mass manufacturing could be realised in an appropriate institutional armature. The new agenda on motoring and financialisation should claim attention because it shows us how and why our economy and society cannot work: restoration of economic coherence is impossible because, although vicious economic recession may be avoided, corporate profitability cannot be raised at the behest of the capital market and, whatever is achieved through maintaining employment inside assemblers, car usage ensures social prosperity is unequally divided rather than widely distributed

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Table 1. - Major Auto Assemblers Post-Tax Return on Capital Employed (ROCE)

	BMW	Chrysle r	Daimler Chrysle r	Fiat	Ford	General Motors	Honda	Nissan	PSA Peugeot Citröen	Renault	Toyota	VAG
	%	%	%	%	%	%	%	%	%	%	%	%
1989	5.7	1.5	32.3	10.1	6.1	5.8	8.1	5.0	22.0	n/a	7.0	3.9
1990	7.0	0.3	6.1	10.5	1.2	-2.8	5.6	4.4	15.1	n/a	8.1	3.6
1991	6.7	-2.5	7.1	3.5	-3.1	-5.6	5.1	1.6	9.1	n/a	7.1	5.1
1992	5.4	2.4	4.9	1.6	-1.1	-3.2	3.8	2.8	5.6	n/a	3.8	0.5
1993	3.5	17.6	-6.3	-5.0	3.1	3.2	2.4	-1.5	-2.3	n/a	2.7	-7.9
1994	4.0	20.2	2.8	2.5	6.0	6.3	1.5	-2.2	4.6	n/a	1.9	0.6
1995	3.7	10.2	-5.9	5.2	4.2	6.8	2.9	-4.5	2.5	3.0	1.9	1.4
1996	4.0	19.8	6.9	6.2	4.3	4.7	3.9	-2.7	1.1	-7.6	3.5	2.8
1997	5.2	13.8	6.0	5.5	6.2	6.6	10.4	2.3	-3.8	6.9	5.1	5.4
1998	3.7	n/a	8.8	2.5	6.9	2.8	11.4	-0.5	3.5	10.7	5.2	7.0
1999	5.1	n/a	8.0	1.2	6.8	5.0	12.5	-1.0	5.1	3.5	4.5	4.7
2000	7.2	n/a	2.7	1.9	4.8	3.6	10.5	-26.5	8.9	5.9	4.9	13.1
Ave	5.0	7.9	5.7	3.7	4.0	3.0	7.0	-1.6	5.7	4.1	4.6	3.7

Table taken from Froud et al (2001a).
Source: Annual Report and Accounts, various years.
Note: ROCE is calculated as profit after interest and tax (and before extraordinary items) divided by total long term capital (shareholder funds plus long term debt).

Table 2. - Employment in the major auto assemblers

Number employed at financial year end '000

	General Motors	Ford	Chrysler	Mercedes Benz	BMW	VAG	Toyota	Nissan	Honda	PSA	Fiat
1989	775.1	366.6	121.9	223.2	66.3	257.6	91.8	117.3	71.0	159.1	286.3
1990	761.4	370.4	109.9	231.0	70.9	268.0	96.8	129.5	79.0	159.1	303.2
1991	756.3	332.0	99.9	237.4	74.9	267.0	102.4	138.3	86.0	156.8	288.0
1992	750.0	325.3	113.0	222.5	73.6	281.6	108.2	143.9	91.0	150.8	285.5
1993	710.8	322.2	115.9	209.9	71.0	259.7	109.3	143.8	91.0	143.9	261.0
1994	692.8	337.7	111.6	197.6	109.4	243.6	110.5	143.3	91.0	139.8	248.1
1995	745.0	347.0	112.5	197.2	115.8	242.3	142.6	145.6	93.0	139.9	237.2
1996	647.0	371.7	114.2	199.1	116.1	242.5	146.9	139.9	97.0	139.1	237.8
1997	608.0	363.9	112.3	207.3	117.6	256.1	150.7	135.3	101.0	140.2	242.3
1998	594.0	342.5			119.9	275.6	159.0	137.2	109.0	156.5	234.5
1999	388.0	364.6				290.4	183.9	131.3	112.0	165.8	223.1
2000	386.0					306.4	214.6	131.3	112.0	172.4	230.5

Table taken from Froud et al (2001b)
Source: Annual Report and Accounts, various years
Note: BMW figures include Rover. In 1994, there were 73,124 BMW employees and 36,238 Rover employees.

Table 3. - Major auto assemblers' dividends as a % of post-tax profits

%

	General Motors	Ford	Chrysler	Daimler Benz	BMW	VAG	Toyota	Nissan	Honda	PSA	Fiat
1989	46.5	36.2	74.7	7.4	35.6		15.8	28.8	11.6	6.7	22.9
1990	*	147.1	395.6	30.9	28.6	30.9	13.0	30.0	16.3	8.5	52.9
1991	*	42.3	*	28.7	28.8	34.2	14.9	72.1	17.8	14.3	76.3
1992	*	*	31.7	41.6	31.1	256.5	31.2	43.1	21.0	19.2	95.5
1993	44.0	30.1	*	102.9	43.9	*	44.0	*	35.6	*	*
1994	22.7	23.0	10.7	54.3	39.8	80.0	62.8	*	57.5	0.0	4.3
1995	19.3	33.0	35.1	*	38.7	40.8	32.1	*	22.2	17.6	13.4
1996	30.8	37.8	27.3	0.4	36.3	32.4	37.0	*	19.3	34.1	21.6
1997	24.2	27.5	39.1	7.2	31.9	23.9	20.2	22.7	6.2	*	21.5
1998	47.0	9.5	n/a		57.2	21.9	18.4	*	6.4	7.2	56.6
1999	22.8	31.2	n/a		40.6	38.3	19.4	*	6.7	15.1	99.2
2000	29.1	99.1	n/a		30.2	22.6	19.2	*	7.8	9.9	53.0

Table taken from Froud et al (2001b)
Source: Annual Report and Accounts, various years
Notes: * Indicates year when a loss was made. Dividends paid are as reported in the cash flow statement. Sales include revenues from automotive sales, financial services and other business activities. Post-tax profits are those available for distribution to shareholders and/or retention within the company.

Table 4. - European Institutional Investors in Europe as of 1 January 2001

(in millions of US$, Share prices as of 31 December 2000)

Destination	%	within	Europe	% Total	% Europe / World
Origin	France	Germany	Italy	Europe	
France	89.1	9.8	1.1	16.5	92.2
Germany	2.0	97.6	0.3	66.3	94.5
Italy	6.2	38.1	55.7	4.8	52.7
Switzerland	32.3	62.9	4.8	3.0	71.9
United-Kingdom	28.6	69.2	2.2	5.8	42.9
Others countries	15.9	81.8	2.3	3.7	53.1
Total Europe	19.6	77.0	3.4	100.0	82.2

Table taken from Dupuy and Lung (2001)
Source: LEREPS-Shareworld

Table 5. - Growth of European assembler vehicle financing

	Fiat		PSA		BMW			VW	
	% of new vehicles financed	No. of new vehicles financed	% of new vehicles financed	No. of new vehicles financed	% of new vehicles financed	No. of new vehicles financed	New Contracts	% of new vehicles financed	No. of new vehicles financed
	%	No.	%	No.	%	No.	No.	%	No.
1989									
1990	24.6	525,100			16.0	84,139	240,000	10.0	304,756
1991	25.0	515,500							
1992	22.7	445,000					344,000		
1993	23.0	322,300					402,000	21.0	633,917
1994	18.8	397,000					460,000	23.2	705,833
1995	24.0	563,040	23.8	444,611			545,000	22.7	773,712
1996	29.3	693,000	20.0	401,220			627,000	28.4	1,129,438
1997	30.2	826,000	22.2	467,621			802,000	25.1	1,077,010
1998	33.0	820,380	23.9	544,346			1,015,000	26.1	1,258,719
1999	37.4	892,738	24.7	622,341			1,210,000	26.6	1,290,949
2000	40.0	1,247,700			34.6	355,257	1,230,000	27.3	1,407,712

Table taken from Froud et al (2001b).
Source: Annual report and accounts

Table 6. - Households by socio-economic group and the importance of driving to work for households in inner (Hackney) and outer London (Epping Forest)

	Hackney			Epping Forest		
Socio-economic group (SEG)	No. of households in SEG	% of total	% of households in SEG that drive to work	No. of households in SEG	% of total	% of households in SEG that drive to work
Employers and managers	739	13	37	1,074	20	69
Professional workers	345	6	29	294	5	61
Intermediate non-manual workers	1,057	19	25	717	13	57
Junior non-manual workers	1,087	19	14	1,380	25	45
Manual workers (foremen, supervisors, skilled and own account)	937	17	40	1,103	20	67
Personal service and semi-skilled manual workers	956	17	17	600	11	49
Unskilled manual workers	385	7	12	173	3	33
Farmers and agricultural workers	11	0	45	93	2	40
Armed forces & others	118	2	13	50	1	28
TOTAL	5,635			5,484		

Table taken from Froud et al (2001c)
Source: Derived from 1991 Census County Report (Inner London and Essex)
Note: figures do not include workers in households who get lifts to work by car from another household.