1 Why a book on corporate resilience?

Corporate failure is an increasingly prevalent occurrence. Interest in resilience – the avoidance of failure and the recovery from it – is therefore unsurprisingly on the rise: The average lifespan of a company listed in the S&P 500 index has decreased by more than 50 years in the last century, to a mere 15 years by 2010.[1] Company life expectancies are reducing, and so are CEO tenures. Many reasons for this trend have been put forward: technological innovation, low-cost competition, overcapacity, and an increasing focus on short-term financial returns in many business environments. From a free market perspective, occasional failure is not a bad thing, a sign of creative destruction. Firms that are unable to generate sufficient returns should go out of business, or be taken over by stronger, more efficient firms. Yet in cyclical, mature industries this short-termism may deprive companies of the opportunity to develop long-lasting capabilities that generate wealth in the long term.

The 'industry of industries', as Peter Drucker once called the automotive industry, is a perfect setting to explore these challenges.[2] Yet many other sectors, such as aerospace, electronics and industrial equipment, face the same problem: firms are battered by cyclical markets that see demand drop drastically in a downturn, while they struggle to reduce the large structural cost embedded in their business. Recurring crises become the norm. Emerging markets have been both a bane and a boon in this respect – often providing the greatest opportunity for growth and a major threat due to new entrants at the same time. How can firms develop resilience to perennial problems such as global overcapacity and low-cost competition, to withstand the pressures that they face during a downswing in the business cycle?

In short, what does it take to survive in a mature global industry? This is the question we seek to answer in this book.

MANAGEMENT OR CONTEXT?

Our analysis combines the perspectives of two, usually opposing, schools of thought on corporate success and failure. Within writings on general management (by which we broadly mean strategy, organizational behaviour and operations management) there are ample examples of 'best-practice' literature. This literature typically identifies the practices found in relatively successful companies and describes these, often in a highly stylized form, in a manner suitable for consumption and transfer to other environments. Examples of the 'success manuals' of this genre include Peters and Waterman's *In Search of Excellence* (1982)[3], *The Machine that Changed the World* by Womack, Jones and Roos (1990)[4] and Collins and Porras' *Built to Last* (1994)[5] and Collins' *From Good to Great* (2001)[6]. Targeted at practitioners, these books aim for near-universal appeal and applicability which, critics say, can lead them to ignore, or play down, some of the more complex factors that are of crucial importance to the very success they are purporting to explain.

At the other extreme are those, often writing from a political-economy perspective, who argue that corporate success and survival is largely about history and context, with management choice and practice playing a much more limited role.[7] Such commentators are scathing about corporate success manuals and stress the importance of corporate history and context to performance. Viewed from this perspective, many struggling organizations are more or less doomed to fail because of a web of environmental constraints within which they find themselves enmeshed (such as agreements with organized labour, market conditions, national culture and institutions etc.). The success or failure of large firms is more to do with being in the right (or wrong) place at the right (or wrong) time than with how they are managed.

In this book we seek to combine both these perspectives. Whilst we share the view that many of the success manuals are naïve,

simplistic and skate conveniently over issues of context, research demonstrates that the application of practices, such as lean principles, is often associated with high levels of quality and productivity and that, other things being equal, this augments competitiveness. The critical political-economy perspective downplays the significance of good management and the choices that managers actually have – although exercising these choices may mean overcoming formidable obstacles which many executives lack the political or other resources to do.

Where we concur with those who stress context is in our use in this book of Freeman's (1984) stakeholder theory[8] to consider how the 'settlements' between auto companies and their various constituencies (suppliers, labour, owners, capital markets, the state and customers) enable and constrain corporate behaviour. We argue that supportive stakeholder relations can be an important mechanism to prevent the failure of an auto company – as a necessary but not sufficient condition for long-term survival, above and beyond good practice in management. We argue that what constitutes 'success' depends on the perspective of the particular stakeholder: for investors it may be predictable and profitable return on their investment, for labour it is a safe and well-paid employment, for government it is employment and a national capability in one of the world's largest industrial sectors. The challenge for auto industry executives is to navigate through this complex landscape of stakeholders, trying, as far as possible, to achieve a balanced, sustainable set of settlements.

An implication of the stakeholder perspective is that major strategic change in large, established organizations such as auto companies, essential at times of crisis, typically requires not only changes to operations and organization, but also sometimes radical adjustment to the settlements between auto companies and their stakeholder groups. Like the 'Swiss cheese' model of failure,[9] which views disasters as a consequence of an unlikely alignment of circumstances, resilience and recovery from crisis requires an unusual – but not unattainable – alignment of enabling conditions. The absence of

this alignment can explain long-term trajectories of decline as companies become progressively more and more 'boxed in' by multiple constraints, so that fixing one problem often just creates others elsewhere.

CRISES IN THE AUTO INDUSTRY

The aim of this book is to explore crisis, resilience and survival in the world's automotive industry. We focus on the automotive sector, specifically the 40 or so companies in the world that design, build and sell cars in significant numbers. The auto industry is a mature industry, featuring stable technology (with a dominant design that has been established more than a century ago); high barriers to entry and, as we shall argue, to exit as well; a global footprint; and a strong public profile. The activities of auto firms are heavily embedded in the economies in which they operate and their products are heavily embedded in the lives of those who use them.

The automotive industry has had a huge influence on thinking about management and organization. Not only is it a major employer in many countries, but the ways in which it has organized complex operations such as product development, manufacturing and supply chains have become management principles in their own right, with the approaches used by companies from Ford to Toyota influencing management theory and practice in many other sectors.

The auto industry is also an industry under stress. Two major car companies, Rover and Saab, have failed since 2005, and in 2009 GM, for decades the largest car company in the world, had to be bailed out by the US Government, along with Chrysler. There might have been even more auto company bankruptcies had it not been for support on the part of many governments, even ones ideologically opposed to intervention. Toyota, the star of the industry for more than two decades, faced its first ever loss in 60 years and suffered a bruising public relations disaster involving large-scale product recalls in 2010.

We first embarked on the research on which this book is based in April 2005, triggered by the collapse of MG Rover, the last

UK-owned volume car maker. In the immediate aftermath of the collapse the British media carried stories essentially blaming the collapse on the actions of the consortium of executives, known as the 'Phoenix Four', who had owned the company since 2000. Whilst there were certainly questions over some aspects of the conduct of the Four, it seemed to us that the seeds for Rover's collapse had been sown many years before. Our investigation of the Rover collapse, which is written up in Chapter 5, led us to interview many people who had been involved with the company in one capacity or another over the 40 years leading up to its demise. This was a fascinating process, and one from which we drew a number of conclusions.

First, many of the reasons for Rover's failure had a very, very long history, some of them pre-dating the formation of the company as a conglomerate through the merger of previously independent companies in 1968. Secondly, it was clear that most of the actors involved, even taking into account the benefits of hindsight, were very aware of the issues and problems that the company was facing at the time. Yet it was also clear that this awareness of the issues and problems was not, in most cases, accompanied by possession of the levers to pull in order to rectify them.

Our first impression was that the formation of the conglomerate had, more or less overnight, created an organization so complex that it had overwhelmed the capacity of its management apparatus to coordinate and control it. We published this idea in a paper in 2008[10] but remained unconvinced that the only explanation of Rover's failure was that the management apparatus was overwhelmed by the complexity that it faced. As we describe in Chapter 5, Rover faced a multitude of issues, and many of our interviewees conveyed a sense of being 'hemmed in' by forces and constraints they could not overcome. Although overload was clearly part of the picture, it did not explain everything.

A further source of unease as we delved into the Rover story was that few of the prescriptions found in the management literature seemed to really address a lot of the issues that Rover faced.

Particularly limited in this regard were many of the 'best practice' case studies, which claim to show the 'secret sauce' of corporate success. For the last 20–30 years, in the case of the auto industry, the 'sauce' often equates to an exhortation to 'design and build better cars'. We are not suggesting for a moment that designing and delivering bad products and services is a recipe for success in any industry, but in Rover's case simply fixing its products – which with Honda's help, it largely did during the 1980s – still left many other troublesome issues.

One of the reasons for this lies in the nature and dynamics of the auto industry itself. Many analyses of car companies have typically focused on the efficiency and effectiveness with which car makers design, build and distribute their products. These capabilities are of course important – but since the early 1990s we have seen a convergence in performance on these measures as car companies have learned lean methods from Toyota and other exemplars. However, we argue that success and survival cannot be understood in these terms alone, but require the orchestration of several conditions simultaneously: coverage of multiple vehicle segments; economies of scale through common components and platforms; and a strong position in markets that are growing and developing. Plus, crucially, the ability to reach appropriate settlements with external stakeholders such as the capital markets, owners, the state and organized labour. The recent global financial crisis has graphically highlighted that adjustments to such settlements can make the difference between corporate life or death.

Achieving all of this is a hard act to pull off. As the cases of Rover and Saab show, not all auto companies will make it. With a persistent 30 per cent production overcapacity worldwide[11] and as we write in 2015 continuing austerity in Europe, the industry faces yet more pain in the future. This book maps out how the auto industry has arrived at its current position, who is at risk in the coming years, and what lessons our analysis holds for other companies and sectors.

The book draws on material from a variety of sources. We have conducted detailed case studies of the collapse of Saab and Rover.

These form the basis of two chapters of the book which explore the dynamics of failure in depth. These two case studies are set in context by material on the evolution of the shape, size and competitive dynamics of the global auto industry which is presented in Chapter 2. In Chapter 3 we discuss different models of competitiveness that have been prevalent at different times in the industry, with reference to Ford, GM, Toyota and VW. Chapter 4 introduces our framework for thinking about issues of resilience and survival under four main headings – management and operations, stakeholder support, scale and market reach. Chapters 5 and 6 contain our case studies of Rover and Saab. In Chapter 7 we look at some of the 'near-misses' – auto firms that have experienced crises but survived. In Chapter 8 we look to the future and discuss the implications of our findings for the future of the industry.

Our aim is to take the discussion of failure, resilience and survival in the auto industry beyond consideration of the narrow and well-covered factors of competitiveness based on capabilities in product development, manufacturing and supply chain management and to show that, important as these capabilities are, they are not of themselves sufficient to understand why some companies survive and others do not. To do this, we argue, also requires consideration of the 'settlements' auto companies achieve with their stakeholders relative to those of their global competitors – stakeholders such as labour, suppliers, the capital markets and local and national governments, as well as of course their customers.

2 The evolution of a global industry

Few inventions have shaped our lives as much as the automobile. It not only allows us to freely move around in our personal lives, it also underpins and enables much of our economic activity by being able to efficiently move goods. As we write this book, the global automotive industry has produced a combined 3 billion vehicles[1] since 1900. The annual growth rate of industry output since 1945 has been 6.3 per cent, and this growth – despite distinct troughs during economic crises – has accelerated in the most recent decade.

In 2013 a total of 87,354,003 vehicles were produced globally, of which 65,462,496 were passenger cars. These added to the 1.1 billion vehicles presently in operation on the planet (see Figures 2.1 and 2.2).

The global auto industry comprises around 40 companies (or groups of companies) who in 2014 each manufactured 100,000 cars a year or more. Most of these also produce light commercial vehicles and about half have divisions that produce heavy commercial vehicles. The largest of these are truly colossal – companies such as Toyota, GM and Volkswagen produce around 10 million vehicles a year, employ hundreds of thousands of people in 100s of assembly plants and other facilities around the world. Yet, despite this scale, giant car companies are not immune from failure, as the bankruptcies of both GM and Chrysler in 2009 show.

In this chapter we will describe the evolution of the auto industry, as well as the operation of car companies within it and look at their strategy and operations. Car companies represent an extreme in terms of scale and complexity, but we will argue that many of the processes at work in the auto industry are common to many other organizations – they are simply played out on a much greater scale.

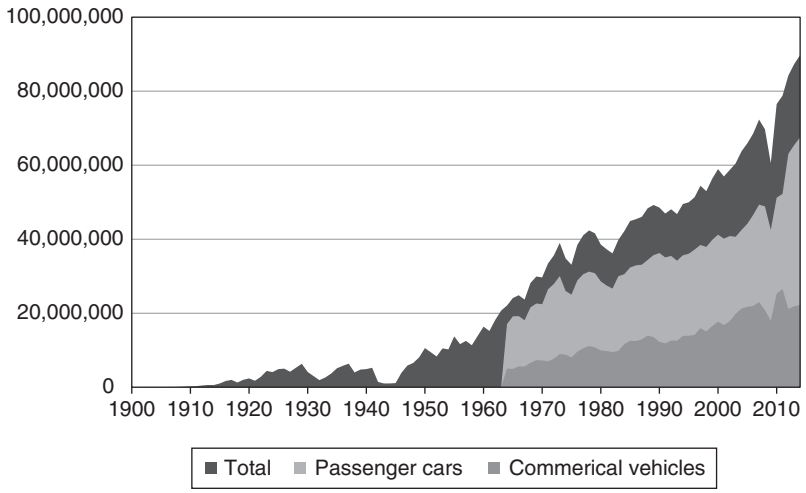

FIGURE 2.1 Global annual vehicle production since 1900
Source: World Motor Vehicle Data, various years

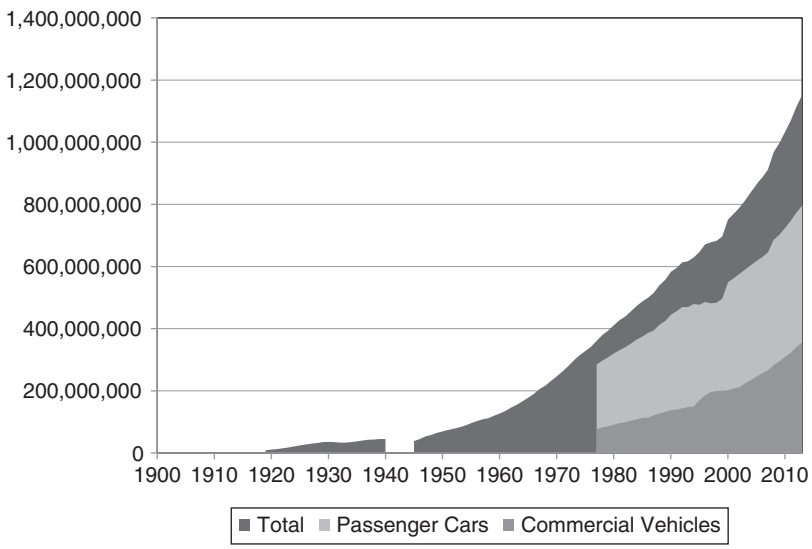

FIGURE 2.2 Worldwide vehicles in operation (data pre-1919 and for 1940–1944 not available)
Source: World Motor Vehicle Data, various years

The auto industry also has six key idiosyncrasies that are key to understanding both the dynamics of the industry and the success and failure of particular auto firms. These are:

1. **Persistent global production overcapacity** – in aggregate, automakers around the world have the capacity to produce far more vehicles than there is demand for. This is not a transient problem – overcapacity has existed for many years.
2. Auto firms have **national and corporate symbolic value** – for developing economies, possession of a car industry symbolizes economic development and progress. For mature economies, the decline of auto-making symbolizes industrial decline and creates political difficulties, especially in communities dependent on the auto industry for employment. Hence there are strong economic and non-economic incentives to enter car-making and equally strong barriers to exit.
3. Car sales are heavily affected by the **economic cycle**. Cars are expensive consumer items with a relatively long service life. Replacement or acquisition of vehicles can usually be deferred if money is tight, so the peaks and troughs of the economic cycle are amplified in the rise and fall in demand for cars.[2]
4. Cars are **complex products**. They contain a multitude of technologies that must be sourced and integrated into complete vehicles, which are then produced to exacting quality standards, within demanding cost constraints, in very high volumes. This demands a formidable capability to coordinate and control, not just within the auto-assembly companies, but across large and complex networks of supply, distribution and sales and support, often located on multiple continents.
5. Cars operate in varied and **demanding environments** – from desert to arctic conditions. The expectation is that they should function reliably for many years with minimal maintenance, in the hands of drivers who have little or no mechanical knowledge. Much modelling, testing and proving is needed before products are released