UNIVERSITÉ DU QUÉBEC À MONTRÉAL

MANAGING AND GOVERNING IN A HYBRID GERMAN-AMERICAN CORPORATION: THE CASE OF THE DAIMLERCHRYSLER AG

MÉMOIRE
PRÉSENTÉ
COMME EXIGENCE PARTIELLE
DE LA MAÎTRISE EN ADMINISTRATION DES AFFAIRES
(MBA-RECHERCHE)

PAR
CAROLINE KAVANAGH

FÉVRIER 2008

REMERCIEMENTS

La rédaction d'un mémoire est un travail exigeant mais très formateur. À ce titre, je tiens à sincèrement remercier ma directrice de mémoire, Professeure Mihaela Firsirotu, pour son appui, ses conseils et sa clairvoyance. En outre, je remercie Professeur Matthias Dressler, co-directeur de mon mémoire, et Mme Agnès Moiroux de l'Université des Sciences Appliquées de Kiel pour leur soutien et leur implication dans l'organisation du programme d'échange des études supérieures allemand-canadien, qui m'a permis d'étudier à l'UQÀM.

J'exprime aussi toute ma gratitude à la Chaire Bombardier en gestion des entreprises transnationales, pour la bourse de recherche qu'elle m'a attribuée et pour m'avoir offert un cadre de travail agréable et intellectuellement enrichissant pendant la durée de mes études à l'École des Sciences de la Gestion à Montréal.

Par ailleurs, je tiens aussi à remercier Angela Wixforth pour ses efforts de relecture et de corrections linguistiques.

Enfin, je remercie ma famille, particulièrement ma mère Ingrid et mon père John pour leur soutien et la confiance en moi, mes amies Katharina et Janine pour leur écoute et leur encouragement, mon ami Peter pour son appui et les nombreuses discussions enrichissantes pendant notre cheminement académique et finalement, en particulier, mon cher Philippe, qui était toujours à mon côté.

Merci pour tout.

TABLE OF CONTENT

REMERCIEMENTS ii

LIST OF FIGURES viii

LIST OF TABLES x

LIST OF ABBREVIATIONS xi

SUMMARY / RÉSUMÉ xii

INTRODUCTION 1

CHAPTER I / RESERCH QUESTIONS 3

CHAPTER II / REVIEW OF LITERATURE 7

2.1 Basic definitions of corporate governance 8

2.2 The shareholder value approach 15

2.2.1 The characteristics of a shareholder value system 16

2.2.2 The classic environment of a shareholder value system 18

2.3 The stakeholder approach 25

2.3.1 The characteristics of a stakeholder system 26

2.3.2 The classic environment of a stakeholder system 27

2.4 The convergence versus path dependence theory debate 36

2.5 Contemporary German corporate governance research and debate 38

2.6 Conclusion 41

CHAPTER III / THE RESEARCH MODEL 42

3.1 The model of the three markets 42

3.1.1 The market for products and services 36
3.1.2 The market for "talent" 44
3.1.3 The financial markets 46

3.2 The relationship between companies and the three markets 47

3.2.1 The period of time 47
3.2.2 The country specific factors 50

3.3 Conclusion 51

CHAPTER IV/ METHODOLOGY AND RESEARCH PERSPECTIVE 52

4.1 The research perspective 52

4.2 The research methodology 54

4.2.1 A qualitative approach 54
4.2.2 The research concept 59
4.2.3 The research sample 60

4.2.4 The sources 62
4.2.5 The analysis and the fidelity of data 66

4.3 The validity and limits of the study 67

4.4 Conclusion 68

CHAPTER V / THE COMPANY 69

5.1 The history of Daimler-Benz: from 1890 to 1989 70

5.1.1 The early beginnings in Swabia 71
5.1.2 The years of depression 72
5.1.3 The company during the Third Reich 73
5.1.4 Back to the future 74
5.1.5 Striving for worldwide omnipresence 75
5.1.6 New models and markets 79
5.1.7 Diversification: Reuter's integrated technology company 81

5.2 Corporate shifts and changes during the 1990s 82

5.2.1 The period between 1990 and 1995 82

5.2.1.1 debis: Reuter's fourth column 82
5.2.1.2 Problems in Stuttgart 84
5.2.1.3 The first listing in New York 85
5.2.1.4 Changes in financial reporting 86
5.2.1.5 The first loss announcement 87
5.2.1.6 Plant closings, payroll reductions and business divestitures 88

5.2.2 The period between 1995 and 1998 89

5.2.2.1 Schrempp's "Unternehmenskonzept" 89
5.2.2.2 The merger between Mercedes-Benz and Daimler-Benz 92

5.2.3 The situation in 1998 and beyond 95

5.2.3.1 The merger between Daimler-Benz and Chrysler 95
5.2.3.2 The quest to create one company 100
5.2.3.3 The dream of creating a "Welt AG" 103
5.2.3.4 An outlook to the present 108

5.3 Conclusion 111

CHAPTER VI / ANALYSIS OF THE THREE MARKETS 114

6.1 The market for products and services 114

6.1.1 Globalization, modernization and consolidation 115
6.1.2 Changes in the supplier industry 119
6.1.3 The spread of global vehicle sales 123
6.1.4 Shifts in the labour market 126
6.1.5 The impact on the DaimlerChrysler Corporation 128

6.2 The market for talent 135

6.2.1 A new "global" market for talent 135
6.2.2 Performance-orientated management remuneration 136
6.2.3 Changes in the German management culture 139
6.2.4 The impact on the DaimlerChrysler Corporation 144

6.3 The market for capital 151

6.3.1 Liberalization of international financial markets 151
6.3.2 The changing role of the German banks 153
6.3.3 Increased market capitalization 157
6.3.4 International share listing of German firms 159
6.3.5 Changes in the German ownership structure 161

6.3.5.1 Majority shareholders 161
6.3.5.2 Minority shareholders 162
6.3.5.3 Institutional investors 163

6.3.6 Financial market reforms in Germany 167
6.3.7 Accounting: disclosure and transparency 169

6.4 The impact on the DaimlerChrysler Corporation 172

6.5 Conclusion 181

FINAL CONCLUSION 183

BIBLIOGRAPHY 188

LIST OF FIGURES

Figure		Page
2.1	The Four Pillars of Value Creating Governance	14
2.2	A stakeholder map of a large organization	25
2.3	Number of takeover bids in Germany, the UK, and the USA	32
2.4	The German network of cross-holdings	33
2.5	The legal structure of corporate governance in Germany	35
3.1	The company in the context of the three markets	43
3.2	The two models of the corporation by Allaire and Firsirotu	49
5.1	The organizational structure of the Daimler-Benz AG in 1990	83
5.2	DaimlerChrysler: Number of Employees, 1990-2005	89
5.3	Daimler-Benz share performance between 1988 and 1997	90
5.4	DaimlerChrysler development of revenues: 1990-2005	99
5.5	The post-merger structure of DaimlerChrysler	100
5.6	DaimlerChrysler's share price development: 1998-2005	107
6.1	The 1990s pace of consolidation in the automobile industry	116
6.2	Annual turnover of the German automobile sub-supplier industry	120
6.3	Major automobile sub-suppliers (turnover in billion of Euro)	122
6.4	Light vehicle sales and production by manufacturer in 2005	125
6.5	DaimlerChrysler's share price performance in comparison to its competitors in the period between 1998 and 2005	126
6.6	Estimated German management remuneration per board of management member in the year 2000	138
6.7	Average years in office of German CEOs: 1960-2005	142
6.8	Careers of CEOs in German corporations: 1990-1999	144
6.9	Jürgen E. Schrempp and his career at DaimlerChrysler	147

6.10	Corporate debts in form of bank loans in relation to the total corporate debt: 1980-2005	154
6.11	Domestic market capitalization relative to GDP: A cross-country comparison between 1994 and 2005	158
6.12	Share of stock exchanges in the world's market capitalization	160
6.13	Daimler-Benz shareholder structure in 1991	173
6.14	Daimler-Benz shareholder structure in 1994	174
6.15	DaimlerChrysler shareholder structure in 1998	175
6.16	DaimlerChrysler shareholder structure in 2005	176
6.17	Phases of capital-market-oriented reporting at DaimlerChrysler	179
6.18	Changes and shifts in DaimlerChrysler AG's management and corporate governance system in the 1990s	182

LIST OF TABLES

Table		Page
2.1	Shareholder rights concentration: A cross-country comparison	20
2.2	Shareholder structures in a cross-country comparison	21
2.3	Shareholder concentrations in Continental European countries	29
2.4	Ownership structure of shares in Germany	30
5.1	DaimlerChrysler's board of management after the merger: 10 Daimler and 9 Chrysler executives	105
6.1	International automobile sales and production: Unit sales and production of motor vehicles by country and region	124
6.2	Board of management and CEO remuneration at DaimlerChrysler (not including bonus pay and stock options)	145
6.3	German corporations listed in the USA (July 2005)	161
6.4	The structure of foreign holdings by type of holder	164
6.5	Key facts about private equity firms in Germany: 2005-2006	166

LIST OF ABBREVIATIONS

ADR	American Depositary Receipt
AG	Aktiengesellschaft (German corporation)
CalPERS	California Public Employees' Retirement System
CEO	Chief Executive Officer
CFO	Chief Financial Officer
DAI	Deutsches Aktieninstitut (German Stock Exchange Institute)
DAX	Deutscher Aktien-Index (German stock market index)
DAX 30	Deutscher Aktien-Index 30 (German Blue Chip stock market index)
DB	Deutsche Bank
DCX	The NYSE stock symbol for DaimlerChrysler
DM	Deutschmark (former German currency until 1998)
Euronext	pan-European stock exchange based in Paris
GRS	Global Registered Share
US GAAP	United States Generally Accepted Accounting Principles
GCCG	German Code of Corporate Governance
IASC	International Accounting Standards Committee
IG Metall	Industrie Gewerkschaft Metall (German Metalworkers' Union)
KonTraG	Gesetz zur Kontrolle und Transparenz im Unternehmensbereich (Law for control and transparency in the business sector)
NASDQ	National Association of Securities Dealers Automated Quotations
NYSE	New York Stock Exchange
SEC	Security Exchange Commission

SUMMARY

Within the context of debates over convergence and path dependency of corporate governance, this thesis discusses the shifts and changes in the former Daimler-Benz *Aktiengesellschaft* (AG), later the DaimlerChrysler Corporation, in the 1990s until 2005. In the first section the distinct features of the Anglo-American model of shareholder value and the Continental-European stakeholder model of corporate governance are outlined, thereby pointing out the contemporary debate about changes in the German corporate structure. The second section focuses on the internal evolution of the Daimler-Benz AG from a traditional German to global German-American corporation and the impact of external market forces - the deregulated market for capital, the globalized market for products and services, and the emerging market for managerial "talent"- on the company. The case study of DaimlerChrysler reveals how German corporations incrementally adopted shareholder-oriented principles, driven by international market forces, while they maintained important features of the stakeholder system.

RÉSUMÉ

Dans le cadre du débat entre les conceptions convergentes ou dépendantes des trajectoires *(path dependency)* de la gouvernance d'entreprises, ce mémoire analyse les modifications et les changements ayant eu cours des années 1990 à 2005 au sein de la firme Daimler-Benz *Aktiengesellschaft* (AG) (devenue en cours de route DaimlerChrysler Corporation). Dans la première section de ce travail, nous soulignons les principales caractéristiques des modèles de gouvernance Anglo-américains (orientés en fonction de la valeur des actionnaires) et de l'Europe continentale (plus axés vers leurs parties prenantes) tout en mettant en lumière les enjeux contemporains entourant les transformations structurelles auxquelles sont soumises les sociétés par actions allemandes. La deuxième section de ce mémoire, focalise sur l'évolution interne de Daimler-Benz AG d'un modèle d'entreprise traditionnel allemand à une entreprise Germano-américaine internationale. Dans cette section, nous étudions également l'impact externe de trois forces marchandes sur la firme allemande soit : le marché dérégulé des capitaux, le marché mondial des produits et services, et le marché émergent des talents de gestion. Au final, notre étude de cas révèle comment, à la suite des pressions des marchés internationaux, les firmes allemandes en sont incrémentalement venues à adopter des principes de gouvernance plus orientés en fonction de la valeur des actionnaires, tout en maintenant certaines caractéristiques importantes du système de gouvernance pour les parties prenantes.

INTRODUCTION

Each company evolves in a specific context of markets. This context can vary from one country to the other and from business to business. Cultural background, different historical traditions and political systems seem to influence the way a company is organized and the way it conducts its business.

The world's largest economies, the USA, Japan, the UK, and Germany, have achieved their wealth and growth under distinct systems of management and corporate governance. Whereas liberal Anglo-Saxon economies have developed shareholder-value-oriented systems, Continental European economies, like the social market economy in Germany, have developed stakeholder-oriented systems of management and corporate governance.

Since the late 1970s traditional stakeholder-oriented systems have underwent radical changes. A contemporary scientific debate has arisen to which extent these corporate governance systems are converging towards the shareholder value model of corporate governance. In fact, there are two schools of thought: the first one believes that all economies worldwide are converging towards "one" most efficient global corporate governance system, namely the shareholder value model, and the second one believes that economies maintain governance systems that are specific to their national context and historical background.

The goal of this study is to analyze to which extent traditionally stakeholder-oriented German corporations have converged to a shareholder value approach in management and corporate governance and which factors may be accountable for this change. To reach this goal we will study the case of the German corporation DaimlerChrysler AG in the period between 1990 and 2005.

The master thesis is divided into six chapters and a final conclusion. In chapter I, I will develop and identify the major premises and research questions of this case study. In the following chapter II, a review of relevant literature, I will describe and define the Anglo-American model of shareholder value and the Continental-European stakeholder model. Furthermore, I will try to summarize the results of studies and contemporary debates about the convergence and path-dependency of corporate governance systems, particularly with regard to the development and changes in the German corporate structure. In chapter III, will describe the research concept on which this master thesis is based on.

After having methodologically justified the case study method as an important and resourceful research tool in chapter IV, DaimlerChrysler will be presented as a company with a particular in-depth investigation of the corporate shifts and changes during the 1990s and their impact on the company today, in chapter V. In chapter VI, I will analyze the evolution of the market for products and services, "talent", and capital during the 1990s and beyond and their impact on the DaimlerChrysler Corporation.

The final conclusion will summarize the impact of the three markets on DaimlerChrysler and to which extent the case of DaimlerChrysler can or cannot be considered as an important example for the convergence of German corporate governance systems from a stakeholder-oriented towards a shareholder-oriented model driven by distinct market forces.

The issue considering the development, the functioning, and the advantages of a German "hybrid" corporate governance model, combining stakeholder and shareholder value elements, will be as well discussed in the final conclusion.

CHAPTER I

RESEARCH QUESTIONS

In this master's thesis, an in-depth case study of the Daimler-Benz AG from the 1990s to the present time, I endeavour to address several important research questions about the impact of global market forces on the management and the governance of this large German corporation. Furthermore, I will map out how global market forces have shaped the management and governance system of the present-day Daimler Group AG[1]. I will assess the extent to which these market forces will remain an important influence on the company's management and corporate governance in the future. The study of these market forces, and their influence, is based on Allaire's and Firsirotu's (1993; 2004) concept of the modern corporation as located at the nexus of three powerful markets, namely: the market for products and services, the market for "talent", and the financial markets.

During the last semester of my MBA studies at the *École des Sciences de la Gestion* (ESG), the business school of the *Université du Québec à Montréal* (UQAM), I worked as a research assistant at the J. Armand Bombardier Chair, which focuses its research on strategic and governance issues.

Professor Firsirotu teaches the strategy course and a radical change seminar in the Master's program (as well as in the Ph.D. program). Professor Firsirotu accepted to co-chair my master's thesis committee. Being a master degree student from Germany[2], Professor Firsirotu and I decided that I should choose a research topic for

[1] On May 14, 2007, DaimlerChrysler AG sold 80.1 per cent of its Chrysler shares to the American private equity investment firm Cerberus Capital Management. DaimlerChrysler AG will be renamed Daimler AG at its next shareholder meeting in the fall of 2007.

[2] In September 2005, I came to the ESG at the UQAM to start my MBA studies as a participant of the double diploma program between the UQAM and the University of Applied Sciences Kiel.

my thesis, which would bring together various aspects of market globalization and their impact on corporate management and governance within the very specific cultural and socio-political context of Germany.

The thesis is predicated on a number of premises, which leads to a number of research questions:

1. The system of corporate governance is at the heart of each corporation. Therefore, I will use the nature of the firm's system of corporate governance as key indicator for the entire orientation of the firm.

2. Firms' governance systems are reflections of their countries context (economic, political, cultural, and legal environment). The strongest economies, the USA, the UK (both traditionally shareholder value-oriented), Japan, and Germany (both traditionally stakeholder-oriented) have achieved their successes under different corporate systems.

3. From the late 70s onward, these corporate systems were assaulted by a series of radical transformations. Firstly, the shift from managerial capitalism to "investor capitalism", which brought about an affirmation of shareholders as the ultimate, and the most important, stakeholder, one which became determined to assert its authority over managements goals and priorities and to maximize the value of its investment. Secondly the emergence of a market for "talent" as corporation in large number gave up on their policies and commitment to job security and exclusive promotion within; managerial skills and leadership became increasingly viewed as generic and portable; a burgeoning "secondary" market for management skills came about, increasingly well developed and efficient. Thirdly, the waves of privatization and deregulation during the 1980s and 1990s, the opening up of borders to the migration of goods and services

(globalization), the emergence of new technologies, have combined to make the markets for products and services increasingly efficient and unforgiving. As a result, corporations (publicly traded ones, particularly) were buffeted by three pressing markets each one with its claims on the corporation and its quest for efficiency. The making of strategy, the creation of lasting economic value, the governance and management of corporations, their ethos and culture, are all deeply impacted by the growing pressure from markets. As this market model gradually replaces the traditional loyalty/stakeholder model, a radically different concept of the corporation emerged, the ramifications of which are still being worked out and are often but dimly understood by observers and participants (Allaire/Firsirotu, 1993; 2004; 2007).

4. The pressures from the three markets (capital, product and services, and "talent"), originating in the USA and the UK, are increasingly prevalent in continental Europe and Germany. As a result, companies operating under the impact of the three markets have to adapt to the new circumstances by undertaking significant changes in their management and governance systems, ethos, and culture.

5. Further empirical studies of companies (both longitudinal case studies and quantitative analysis of a number of samples of companies) in different settings must be conducted in order to provide answers to the present debate between "the convergence theory" of corporate governance systems to "one" most efficient global corporate governance system (Bradley et al., 1999; Branson, 2001; Gordon, 1999; Hansmann/Kraakman, 2000) and "the theory of path dependence" in corporate ownership and governance (Bebchuk/Roe, 1999; Roe, 1996; Roe, 1997). This is an ongoing debate between two schools of thought.

By focussing on the evolution of one significant German company, DaimlerChrysler Aktiengesellschaft (AG), I hope to shed some light on the processes underlying the present debated evolution of modern corporations.

Research questions:

1. What are the governance system changes in management style and practice of DaimlerChrysler at the end of the 1990s and how did they evolve? How different are they from those prevailing in the 1970s and 1980s?

2. To the extent that DaimlerChrysler shows significant changes in its governance system, what are the factors, which are accountable for these changes? How do we explain this evolution or shift?

3. To the extent that significant changes have occurred at DaimlerChrysler, through what type of processes have they been carried out? Evolutionary or revolutionary ones? Differently stated, did DaimlerChrysler adapt incrementally and as much managed to preserve features of the loyalty/stakeholder model in the midst of market pressures or did it change radically to shareholder value governance due to a specific event? If the firmer is true, what are the mechanisms, which allowed it to adapt to the new circumstances without fundamentally changing its essence? Could "path dependency theory " be one explanation?

CHAPTER II

REVIEW OF LITERATURE

While examining the case of DaimlerChrysler in particular in the 1990s, I will try to reveal to what extent German corporations have changed their nature due to distinct global market forces. The system of corporate governance is at the heart of each corporation. Therefore, I will use the nature of a firm's system of corporate governance as key indicator for the entire orientation of the firm.

In the review of literature, I will concentrate on the major theories of corporate governance and the debate about the global convergence of corporate governance systems towards an optimal model of corporate governance (Bradley et al., 1999; Branson, 2001; Gordon, 1999; Hansmann/Kraakman, 2000) opposing the theory of path dependency (Bebchuk/Roe, 1999; Roe, 2003), which provides strong arguments for the dependence of corporate governance systems on history, politics, and the evolution within a given economic system. After a short introduction to common definitions of corporate governance developed by early scholars such as Berle and Means (1932) and later corporate governance researchers like Jensen and Meckling (1976) or Shleifer and Vishny (1997), I will concentrate on contemporary international corporate governance theories, which find their origin in the 1990s.

After having defined the basic meaning of the concept of corporate governance, I will present and examine the contemporary corporate governance models, their theoretical underpinning, their characteristics, and the features of their socio-political, cultural, and economic environment within which they evolve.

Today's strongest economies, the USA, Japan, the U.K., and Germany have reached their success under different corporate governance systems. In comparative political economy it has become commonplace to distinguish two types of corporate governance systems: the Anglo-Saxon shareholder-value-oriented and the continental European stakeholder-value-oriented model (Hopt/Kanda/Roe, 1998; Jackson, 2001; Kelly/Kelly/Gamble, 1997; McCahery et al., 2002). In the review of literature, I will illustrate the definitions of the two systems by concrete examples from the corporate governance systems in the USA and UK (shareholder-value-oriented model) and in Germany (stakeholder-value-oriented model).

The German economy used to be a prominent example for the stakeholder-oriented approach, however, since the beginning of the 1990s, many economists presume that the German corporate system is converging towards a more shareholder-value-oriented model. The debate about the evolution of the German corporate structure implies many aspects of the worldwide debate about path dependency and the international convergence towards an optimal corporate governance model, which will presumably, according to a great number of scholars, resemble the Anglo-American shareholder value model. In the last part of the review of literature, I will survey the most important arguments of the contemporary international convergence debate. Furthermore, I will summarize some major aspects of the German corporate governance debate, such as the debate about the development of a German 'hybrid' model or the introduction of the German Codex of Corporate Governance.

2.1 Basic definitions of corporate governance

The etymological origin of the term 'Corporate Governance' gives a first idea of its deeper meaning. 'Corporation' derives from the Latin word 'corpus', meaning juridical person; 'governance' derives from the Latin word 'gubernare' or the Greek word 'kybernetes' both meaning 'to steer' (Encyclopaedia Britannica, 2006).

Morton Balling explained the term 'Corporate Governance' at the opening session of the Société Universitaire Européenne de Recherches Financières (SUERF) and the 7th Conference of the Robert Triffin-Szirák Foundation (RTSF), May 15 1997, Budapest, by relating the term to other words as follows:

> "The concept 'Governance' is related to words like influence, power, ruling, leading and guiding, directing, and inspiring. The concept 'Corporate' refers to ways of organizing business, the formation and management of joint stock companies, company law provisions on capital, regulation by laws and statues of manager/shareholder relations, procedures for the appointment of supervisory boards, definition of the respective responsibilities of managers, board members, auditors, etc." (Balling, 1997: 6).

The field now known as corporate governance dates back to Berle and Means' classic work, *The Modern Corporation and Private Property,* published in 1932. Interpretations of this important work have gone through several research waves, but almost all scholars commenting on Berle and Means (1932) work have acknowledged their basic concern, the separation of ownership from control in large US corporations: "Finally, in the corporate system, the 'owner' of industrial wealth is left with a mere symbol of ownership while the power, the responsibility and the substance which have been an integral part of ownership in the past are being transferred to a separate group in whose hands lies control." (Berle/Means, 1932: 293). In their work *The Modern Corporation and Private Property* Berle and Means (1932) point out the fact that stockholders have to rely on the 'good will' of managers to fulfil their fiduciary obligation, managing the company in the best interest of stockholders:

> „The only conclusion that can be drawn is that the share of stock as at present known, while it represents in a sense a participation in corporate assets, does so subject to so many qualifications that the distinctness of the property right has been blurred to the point of invisibility. For protection the stock-holder has only a set of expectations that the men who compose the management and control will deal fairly with his interest." (Berle/Means, 1932: 188).

In how far stockholders can avoid relying on the 'good will' of managers, defined as fiduciary obligation, is subject to the research of Shleifer and Vishny

(1997). They precise in their definition of corporate governance that corporate governance deals with the way in which suppliers of finance to corporations assure themselves of getting a return on their investment. Thus corporate governance becomes a necessity in a situation where the suppliers of finance, the owner or shareholders of the company in question, do not run the company themselves but hire a management team to run the company on a daily base. Shleifer and Vishny (1997) try to explore in their research work how suppliers of finance make managers to return profits to them and, furthermore, how they assure that managers do not steal the capital they supply or invest it in bad projects. The question how suppliers of finance may control managers, is from the point of view of Shleifer and Vishny (1997), central to corporate governance research.

The relation between stockholders and managers is in general very complex and not easy to manage. Jensen and Meckling (1976) explained in their voluminous theoretical and empirical body of research that there is a great potential for conflict of interest between owners and controllers, when ownership and control of corporations are not fully coincident. The conflicts of interest, combined with the inability to write perfect contracts, causing no costs, or the inability to monitor the controllers of the firm, reduce the value of the company, ceteris paribus. This problem of motivating one party to act on behalf of another is known as 'the principal-agent problem'. The costs arising from information asymmetry, uncertainty, and risk, are called 'agency costs', mentioned already in a study on US companies by Berle and Means (1932), but theoretically explained for the first time by Jensen and Meckling (1976).

The solution to the problem of information asymmetry – closely related to the moral hazard problem – is to ensure, as far as possible, the provision of appropriate incentives so that agents act in the way the principals wish them to do. In terms of game theory, it involves changing the rules of the game so that the self-interested rational choices that the principal predicts the agent will coincide with the choices the principal desires. Since Jensen and Meckling (1976), many scholars have explored the field of 'the principal-agent problem' and 'agency costs', using different approaches and finding different solutions for the diminution of agency costs and the improvement of principal-agent relationships (Barney, 1988; Eisenhardt, 1989; Eccles, 1985).

Berle and Means (1932) and Jensen and Meckling (1976) provided with their complex theoretical work the basis for the corporate governance research today. We will now have a look at more recent studies and economic reports, which have contributed to further definitions of corporate governance.

A recent definition of corporate governance can be found in the Cadbury Report, published in the UK, in 1992, which started more or less the corporate governance debate in Europe. The report defines corporate governance in a less complex and rather practical way as „the system by which companies are directed and controlled". As applied in practice, this narrower definition focuses almost exclusively on the internal structure and operation of the corporation's decision-making processes.

The official definition of corporate governance by the OECD, published in April 1999 and commented in the OECD Principles of Corporate Governance (2004), is consistent with the one presented by the Cadbury Report:

> "Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance." (OECD, 2004: 11).

Other contemporary definitions of corporate governance put a stronger emphasis on the importance of transparency and ethically 'fair' behaviour in business. A good example is the comment of J. D. Wolfensohn, president of the

World Bank, who pointed out in an article in the Financial Times in June 1999, that "Corporate governance is about promoting corporate fairness, transparency and accountability" (Financial Times, 1999).

Since the 1990s a new generation of corporate governance has evolved, examining the effects of the general underlying system of corporate laws and regulations on corporate governance and firm value.

La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998) have been one of the first researchers to hypothesize in their work *Law and Finance* that the extent to which a country's laws protect investor rights - and the extent to which these laws are enforced - are fundamental determinants of the ways in which corporate finance and corporate governance develop in a certain country. They found evidence for the existence of significant differences across countries in the degree of investor protection, and that countries with a lower investor protection show a high concentration of equity ownership and a lack of significant equity markets. The country's differences in the structure of equity ownership concentration and in the liquidity of equity markets will be an important aspect for the further study and the characterization of the two different corporate governance systems: the stakeholder-oriented and the shareholder-value-oriented approach.

A contemporary approach to corporate governance has been provided by Allaire and Firsirotu (2005): the concept of value creating governance. The concept of value creating governance is based on the framework of agency theory and the ways on which some "premium-diversified" companies, e.g. General Electric, Emerson, and United Technologies, have managed to create value through "strategic" or "internal" governance practices. In this context, Allaire and Firsirotu (2005) have mapped four important pillars of governance:

- **Pillar I: the legitimacy and credibility of principals (board members).** Legitimacy means that board members represent and defend interests of shareholders either because they are themselves important investors in the company or have been directly selected by investors[3]. Credibility means that board members must show evidence of knowledge and expertise pertinent to the corporation, not only general business experience, accumulated over years in industries that may have only little in common with the company which board they represent.

- **Pillar II: the strategy process and dialogue.** The board should insist on a strategy process that includes discussions on strategic orientation early on, and directors should be on-side before management proceeds to prepare its strategic plan.

- **Pillar III: the quality of financial and strategic information.** A board needs to ensure that it has access to reliable, valid and timely information from independent sources. Therefore it has to design an efficient information system, which supplies the board not only with the standard information required for fiduciary purposes, but also with strategic information that is particularly relevant to the type of business the board is governing.

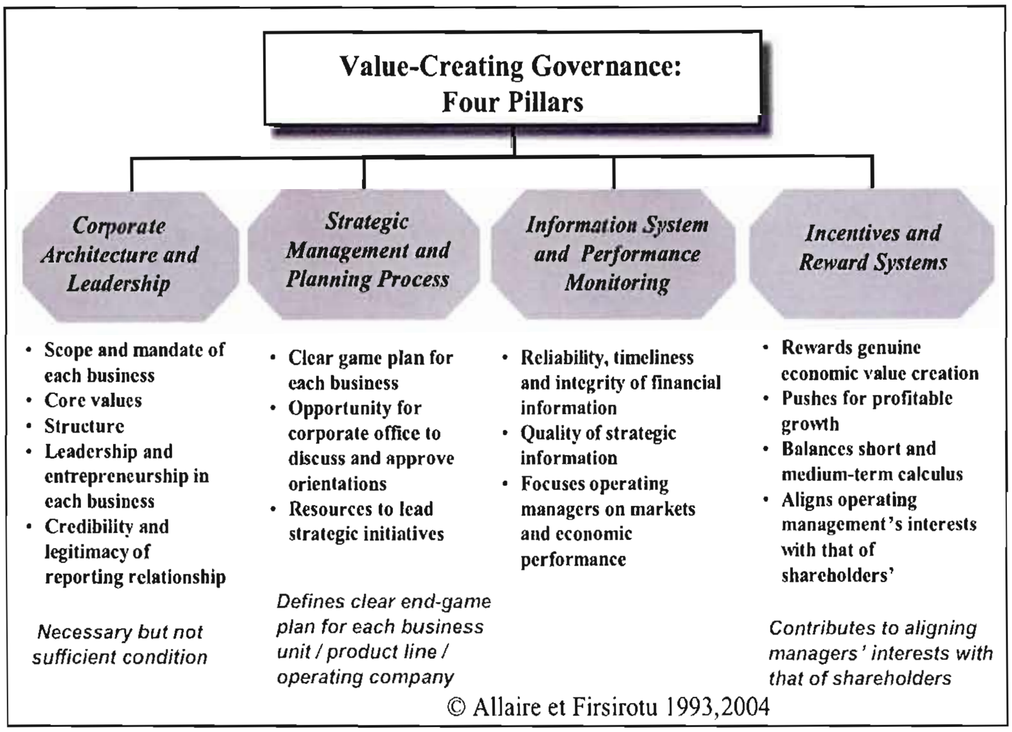
- and, **Pillar IV: the compensation and incentive system**. An effective compensation and incentive system is a key driver of value, but is very difficult to design. It has to deal with: the proper balance of rewards between short-term and long-term performance; the calibration of overall compensation to relevant markets; the safeguards against tampering with performance measures and indicators; and the weight of internal measures (e.g. Return On Investment (ROI), Economic Value Added (EVA), etc.) versus external performance scores

[3] Allaire and Firsirotu (2005) suggest that any investor, or collection of investors, with a sizeable stake in a company (say 5 per cent or more) should be allowed to propose candidates for board membership and that there could be a minimum holding period (two years for instance) before a shareholder would be allowed to participate in the nomination process. In addition, they propose a cumulative voting process for the election of board members to enhance the representative character of boards.

(e.g. indexed stock price, Market Value Added (MVA), etc.)[4].

The following graphic illustrates in which way the four pillars of value-creating governance: Corporate Architecture and Leadership, Strategic Management and Planning Process, Information System and Performance Monitoring, and Incentives and Reward Systems, are composed and which importance each particular pillar has for the entire system of value-creating governance.

Figure 2.1 The Four Pillars of Value Creating Governance



Source: Allaire/Firsirotu (2005: 125).

[4] See Allaire (2003) for a discussion of these issues and a set of suggestions for a new compensation system.

2.2 The shareholder value approach

> "The principle that the fundamental objective of the business corporation is to increase the value of its shareholders investments is widely accepted." (Rappaport, 1986: 13)[5].

Should a company's management be most accountable to employees, customers, or management itself? Alfred Rappaport argues in his work *Creating Shareholder Value* that management's primary responsibility is to company shareholders. According to the concept of shareholder value, the management of a corporation should first and foremost consider the interests of shareholders in its business decisions. Published in 1986, the ideas put forth by Rappaport have since become commonplace in companies around the world.

Otherwise, the approach has been subject to a great deal of criticism. Critics (Grötker, 2006; Malik, 2006) point out that the sole concentration on shareholder value maximization might be best for the owners of a corporation, however, for society other aspects like employment, environmental, ethical issues or 'good business practices'[6] play a more important role. Thus a management decision that maximizes shareholder value may lower the global welfare of a society. It may even threaten the long-term existence of a company and the creation of sustainable value, for example by emphasizing dividends and returning cash to shareholders rather than investing in innovation, in employee education, in environmental protection or in present and future production capacities.

---

[5] Alfred Rappaport is the Leonard Spacek Professor Emeritus at Northwestern University's J.L. Kellogg Graduate School of Management where he was a member of the faculty for twenty-eight years. His research focusses on the application of shareholder value to corporate planning, performance evaluation, and mergers and acquisitions. He is Shareholder Value Advisor to L.E.K. Consulting. His widely acclaimed, pioneering book, *Creating Shareholder Value: The New Standard for Business Performance*, was published in 1986.

[6] The meaning of 'good business practices' that I will use in this study is based on the definition of good corporate behaviour precised in the *German Code of Corporate Governance*, published by the German Corporate Governance Commission in Berlin, in 2006.

Other and more recent definitions of the shareholder value concept have been provided by Fernandez (2002), Foudy, Jr. (2001), and Allaire and Firsirotu (1993; 2004)[7].

Concentrating on the changing nature of the corporate governance system in Germany, I will examine in detail the general characteristics of a corporate governance system based on shareholder value and the classic environment within it usually evolves.

2.2.1 The characteristics of a shareholder value system

A corporate governance system basing on a shareholder value approach usually possesses the following characteristics, it is:

- outsider-oriented;
- market-based;
- and closely-tied to financial indicators.

In shareholder-value-oriented systems, power is concentrated in the hands of shareholders, and other groups have little or no influence on the management and the governance of the corporation. Shareholder value systems are 'outsider' systems, in which market mechanisms play a strong role in governance, and owners exert influence on management through the threat of exit, in this case the selling of shares (Vitols, 2003).

The strategic goal of a corporation in such a system lies in the maximization of shareholder value. The ultimate authority to determine corporate strategy and to appoint members of the board rests with a large number of anonymous investors, not with a single or a small group of dominant investors. Professional managers run the

[7] Allaire and Firsirotu's (1993; 2004) definition of the shareholder value approach, the model of the three markets, will be explained and discussed in the next chapter.

corporations and institutional investors have a large monitoring role to play. The nature of the interests of shareholders, and especially institutional investors, is usually purely financial and may not correspond to the interests of employees or management, making shareholders 'outsiders' from the point of view of the corporation. Therefore, this system of corporate governance can be characterized as 'outsider system' (Bhasa, 2000).

The conflict of interest between shareholders and management has been mentioned before as 'agency problem' (Jensen/Meckling, 1976). Financial markets and active investors, especially mutual and pension funds, press firms to take steps that align the interests of managers and directors with that of shareholders. In order to encourage strong profit orientation, shareholders reward performance aggressively, either via stock options or other performance-based incentives (Eisenhardt, 1989).

Considering that shareholder value firms are 'market-based', they also have shorter time horizons and are more closely tied to figures, like quarterly earnings (Porter, 1990). Transparency and regular disclosure of financial data and information are essential aspects of the shareholder value approach. However, the importance of financial indicators linked to the share price and the sometimes very short-sighted orientation towards the maximization of dividends, have been also subject to many critics, for example, Freeman (1984) or Paine (2002).

The growth of corporations worldwide has led to the demand for more and more capital. Corporations in shareholder-value-oriented systems have turned mainly to capital markets, and *not* to banks, in order to finance their growth. Consequently, these corporations are oriented towards capital markets and their demands. Financial markets press for and reward firms that increase disclosure, utilize independent auditors, reduce the size of boards to increase focus and accountability, increase the number of independent board members and may remove protections against hostile takeovers (Allaire/Firsirotu, 2005; Foudy Jr., 2001).

In their work *Beyond Monks and Minow: From Fiduciary to Value Creating Governance* Allaire and Firsirotu (2005) explain that fiduciary governance, characterized by the separation of the positions of chairman and CEO, the independence of board directors and of board committee members, the tight control of auditors and executive remuneration by the board, the regular meetings of independent board members only, and the mandatory shareholding by board members and senior management, aims to protect shareholders against egregious behaviour by management and to act as a sort of insurance policy against managerial fraud and misconduct. However, Allaire and Firsirotu (2005) reveal in their study that the obsessive quest for board independence may lead to the ascendancy of legalistic and ill-informed directors, who will force the management to adopt a *"timid, cautious, risk-averse, bureaucratic"* style of management (Allaire/Firsirotu, 2005: 112).

2.2.2 The classic environment of a shareholder value system

A corporate governance system basing on a shareholder value approach evolves usually in the context of:

- a common law countries;
- a dispersed share ownership structure;
- powerful institutional shareholders in the capital market;
- a high market capitalization;
- highly liquid capital markets;
- a one-tier board system;
- an active market for corporate control;
- and a mobile, flexible, and highly professional labour market.

The economies in Anglo-Saxon common-law countries, for example the USA and the UK, where government is at arm's length relationship with corporations and creates a strong competitive economic environment (Carati/Tourani Rad, 2000), are traditionally good examples for the shareholder-value-oriented management and corporate governance approach.

> „A corporation [...] should have as its objective the conduct of business activities with a view to enhancing corporate profits and shareholders' gain." (§ 2.01 (a) of the *US Principles of Corporate Governance: Analysis and Recommendations* stated by the American Law Institute (ALI), 1994).

Shareholder value regimes are necessarily underpinned by a general ideology of shareholder sovereignty that upholds the property rights of shareholders. In Anglo-Saxon countries the 'assimilation of corporate property with private individual property', begun already in the Nineteenth Century, and continued unchallenged throughout most of the twentieth century (Donnelly et al., 2000: 25). Consequently, corporate legislation and case law in the UK and in the USA are based on the underlying premise that a company's directors have a fiduciary responsibility to run the company in the best interest of its shareholders (Wedderburn, 1985; Parkinson, 1998).

This fiduciary responsibility necessarily denies the possibility of any pluralist form of governance that accommodates a range of interests (employees, customers, society, etc.) without giving any one overriding priority. However, it does not deny the possibility that the best interests of the shareholders (both current and future shareholders) may, in the longer term, be consistent with the interest of other stakeholders (Wedderburn, 1985; Parkinson, 1998).

In the USA and in the UK, share ownership is typically widely dispersed among a large number of investors, each of who owns only a small fraction of the total number of a company's shares (Franks/Mayer, 1994; Ooghe /De Langhe, 2002).

Institutional investors, such as mutual funds, pension funds, and insurance companies play an important role, representing the interests of a coalition of individual shareholders and may control, in average, 30 per cent of a company's equity (Franks and Mayer, 1994). Single investors amount in general to no more than a few per cent of the shareholdings, often even much less.

In their study about shareholder rights concentration in Europe, Becht and Röell (1999) empirically proved that the median size of the largest blockholdings and their average value were much larger in traditionally stakeholder-oriented countries (e.g. Germany and the Netherlands) than in traditionally shareholder-value-oriented countries (e.g. UK and USA).

Table 2.1 Shareholder rights concentration: A cross-country comparison

Country	Number of studied companies	Median of the largest blockholdings (%)	Average value of the largest blockholdings (%)
Austria	50	52.0	54.1
Belgium	121	50.6	41.2
	BEL 20	45.1	38.3
France	CAC 40	20.0	29.4
Germany	374	52.1	49.1
	DAX 30	11.0	17.3
Italy	216	54.5	48.0
Netherlands	137	43.5	42.3
Spain	193	34.2	40.1
United Kingdom	250	9.9	13.4
USA	1309 (NYSE)	0*	3.6
	2831 (NASDAQ)	0*	3.4

*Shareholder blockholdings are smaller than 5 per cent and, therefore, have not been made public.
Source: Becht/Röell (1999: 1053).

The pension systems in Anglo-Saxon countries are based to a great extent on the stock market. Therefore, they provide enormous financial resources, which come to the stock market through institutional investors. Another important reason for the low shareholder concentration in Anglo-Saxon countries is the fact that a greater number of companies are publicly traded and shareholders can thus spread and diversify their investments over a greater number of companies, lowering the level of risk inherent in their investments (Franks and Mayer, 1994). In addition, firms in Anglo-Saxon countries tend to be larger than their continental European counterparts.

A large percentage of shares, in a typical Anglo-Saxon company, usually represent an enormous amount of capital.

Historically, Anglo-American firms have always been strongly depending on equity markets in order to finance their growth and expansion. The evolution of the Anglo-American banking sector, which has always been lacking integration with industrial strategy, at the micro and the macro level (Hutton, 1996; Charkham, 1994: 298), may be considered as an essential factor for Anglo-Saxon companies to turn to the equity market as main source of finance. Therefore, the market capitalization in Anglo-Saxon shareholder-value-based systems has always been higher than in continental European stakeholder systems, where banks have always played a central role for companies as source of finance.

Table 2.2 Shareholder structures in a cross-country comparison

(All data in %)	Private households	Companies	Banks	Institutional Investors	State	Foreign investors
USA (2000)	39.1	-	-	40.6	10.3	8.9
UK (1997)	16.5	1.2	0.1	56.2	0.1	24.0
Japan (2000)	17.9	26.0	18.6	18.7	0.1	18.6
Germany (2001)	17.1	30.9	13.0	24.4	0.7	14.0

Source: Deutsches Aktieninstitut e.V. (DAI) (2001).

Another important difference between the Anglo-Saxon and the continental European economies concerns the liquidity of capital markets. The ability of market participants to easily enter into or unwind a particular type of transaction, for example, the buying and selling of shares without any or just little price discount, is much stronger in Anglo-Saxon than in continental European capital markets. A major reason for the higher market liquidity in Anglo-Saxon equity markets is the already mentioned higher market capitalization. The more participants a capital market counts, the higher is the number of active and willing buyers and the greater is the volume of conducted transactions in the market, thus accounting for a higher market liquidity.

The focus on the maintenance of liquid capital markets has led countries, like the UK or the USA, to the development of financial market regulation, company laws, and self-regulatory measures for the corporate sector, which reconcile the principle-agency difficulties that arise with dispersed ownership. La Porta, Lopez-de-Silanes, and Shleifer (1999), point out that minority investors will not be inclined to invest unless their interests are adequately protected from rent-seeking managers. Due to collective action problems and easy exit opportunities, investors in the Anglo-Saxon equity markets are unable or unwilling to exercise direct control on companies. Therefore, common law countries, like the UK or the USA, have undertaken legal steps in order to maintain liquid capital markets, to prevent the expropriation by corporate management, and to align corporate decision-making with the interests of shareholders by improving transparency, disclosure, accountability, and the introduction of performance/share-based executive pay to a certain extent.

In Anglo-Saxon shareholder-value-oriented countries, companies are usually governed by a single board, which is called the one-tier board system. In this one-tier board, the functions of management and management control are combined in a single body. In general, the one-tier board supervises itself and a single strong manager, assuming the role of both chairperson and CEO, dominates the board. He manages the corporation in the interest of the shareholders. The board itself decides the remuneration of board members. To prevent abuse, companies are obliged to disclose directors' remuneration individually. Besides, in the one-tier system it is taken for granted that stock exchange announcements are made as soon as the board of directors makes a decision requiring disclosure (v.Werder/Talaulicar, 2006).

Another important aspect of shareholder value based systems is the active market for corporate control. In outsider systems the threat of hostile takeover plays a key role in aligning managerial decision-making with the interests of minority shareholders. They are usually triggered when managerial performance is deemed to be less than optimal in terms of creating shareholder value. This situation provides the opportunity for a bidder to acquire the company, install a more efficient management team and then profit from the resulting dividends and increase share price. The threat of hostile takeover is deemed to discipline managerial decision-making according to the norms of shareholder value. Consequently, outsiders will be more willing to invest and incentives for insiders to maintain their dominant blockholdings will be diminished (La Porta/Lopez-de-Silanes/Shleifer, 1999).

The shareholders' rights governance is concerned with the extent to which the control of the corporation is "on the market" and the quality of governance is measured by the relative absence of any impediment to, or defences against takeovers. According to this governance approach, free markets for control create value through swift and radical actions to change the ownership and management of underperforming companies (Allaire/Firsirotu, 2005: 113).

Allaire and Firsirotu (2005) mention in their work *beyond Monks and Minow: From Fiduciary to Value Creating Governance* a great number of anti-takeover measures developed in traditional shareholder-value-oriented markets with an active market for corporate control, which slow down or impede (hostile) corporate takeovers. These measures include: Anti-greenmail provisions, blank-check preferred stock, classified or staggered board, poison pills, golden parachutes, supermajority requirements for approval of mergers, legal restrictions on "business combinations" and unequal voting (dual classes of shares)[8]. Although these measures are not in the interest of the shareholders' wealth, the traditionally shareholder-oriented USA state governments, spurred by the wave of leveraged buyouts and hostile takeovers in the 1980s and 1990s, have enacted various of these anti-takeover measures to "moderate and discipline" the free market for corporate control (Allaire/Firsirotu, 2005; Subramamian, 2002).

[8] Following the definitions of Subramanian (2002) and Gompers, Ishiii, and Metrick (2003).

The final aspect of the classic environment of a shareholder value based system, which I would like to mention in this study, concerns the labour market. In general, shareholder-value oriented economies can be characterized as liberal and 'uncoordinated'[9]. Dynamic and liberal markets require from the employees "[...] individual skills of highly trained and mobile professionals [...]" especially in sectors such as "[...] management consultancy; advertising and related media services; international banking, including investment banking, derivatives, etc. [...] " (Soskice, 1999: 114). The firm's relation with workers differs, therefore, strongly between shareholder- and stakeholder-oriented systems.

Absent a high degree of certainty over future employment or generous welfare protection (that might diminish the costs of unemployment), workers rationally choose to develop more general skills (Aoki, 1988) in firms in the USA and the UK. Moreover, general skills provide workers a greater chance to find an employment elsewhere in case of dismissal and strengthen his/her possibility to bargain a higher salary with a firm.

> "We make the assumption that residual earnings maximization is the goal that good governance seeks to make management achieve." (MacAvoy/Millstein, 2003: 53).

According to the shareholder value concept, the overall goal of managers is the maximization of shareholder value. Therefore, the financial business expertise of the top management seems to be a competence, which is more important in shareholder value than in stakeholder economies (Jürgens/Rupp/Vitols, 2000).

[9] In this context, the adjective 'uncoordinated' characterizes an economy, which is based on the free market forces of offer and demand. This economy is only to a very low level 'coordinated' by political forces. The 'invisible hand' (Smith, 1776) of competition coordinates naturally the way in which individuals pursuit their goals contributing thus to the welfare of the nation. From the classical liberal point of view, the state has to maintain a passive role, providing basic needs, for example education nand national security, but not interfering in economic relations, for example by protecting employees' interests through legal institutions.

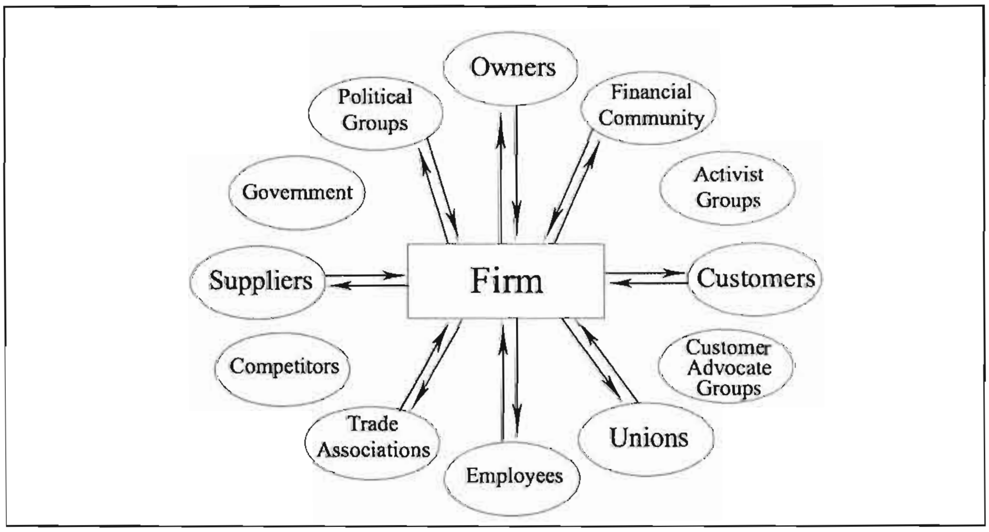
2.3 The stakeholder approach

> "A stakeholder theory of the firm must redefine the purpose of the firm [...] The very purpose of the firm is, in our view, to serve as a vehicle for coordinating stakeholder interests." (Evan/Freeman, 1993: 102-103)[10].

As originally explained by R. E. Freeman (1984), the stakeholder theory attempts to ascertain which groups are stakeholders in a corporation and thus deserve management attention. In short, it attempts to address the "Principle of Who or What Really Counts". In stakeholder systems, power is dispersed across a number of groups with an interest in the firm (Freeman, 1984; 2004; Hutton, 1995; Kelly, Kelly, and Gamble, 1997).

These stakeholders typically do not only include owners but also lenders, employees, customers and suppliers, and the community in which the firm is located.

Figure 2.2 A stakeholder map of a large organization



Source: Adapted from Freeman (1984).

[10] Elis and Signe Olsson Professor of Business Administration, R. Edward Freeman heads Darden's Olsson Center for Applied Ethics, one of the world's leading academic centres for the study of ethics. Freeman has written or edited 10 books on business ethics, environmental management, and strategic management.

In their theory called *Stakeholder view*, Post, Preston, and Sachs (2002: 112), use the following definition of the term 'stakeholder': "The stakeholders in a corporation are the individuals and constituencies that contribute, either voluntarily or involuntarily, to its wealth-creating capacity and activities, and that are therefore its potential beneficiaries and/or risk bearers."

The stakeholder theory has been subject to many interpretations and has evoked praise and scorn from a wide variety of scholars and practitioners. Other definitions of the stakeholder concept are provided by Jones and Wicks (1999), Post, Preston, and Sachs (2002), Marens and Wicks (1999), and Allaire and Firsirotu (1993; 2004)[11].

2.3.1 The characteristics of a stakeholder system

A corporate governance system based on a stakeholder value approach usually possesses the following characteristics, it is:

- insider-oriented;
- and long-term oriented.

Stakeholder systems are 'insider' systems, in which interested groups are closely tied to the firm and exercise influence through institutional mechanisms for expressing their 'voice' within the firm (Hirschman, 1970). From an economic point of view the ideal situation for a stakeholder company would be to maximize the total value creation for each of the firm's stakeholders, that is, the sum of values created by contracting with the firm relative to the best alternative use of resources (Kay, 1995; Holmström, 1999). This would include the sum of (positive or negative) value added to each stakeholder group.

[11] Allaire and Firsirotu's (1993; 2004) definition of the stakeholder approach, the model of reciprocal loyalty, will be explained and discussed in the next chapter.

For owners value added would be economic profits net of the cost of capital (Copeland/Koller/Murrin, 1994) plus other benefits of control. For employees it could be the sum of wage and utility differences between relative to the best alternative jobs. For consumers it could be the consumer surplus created (sum of utility net of price created to all consumers). For suppliers and creditors it could be the risk-adjusted net profits on the firm's account. For governments and other citizens, value creation could imply the sum of tax revenues, and the net value of positive and negative externalities created by the firm relative to the relevant alternative firm (Thomsen, 2004).

Firms in stakeholder systems, like Germany, have traditionally developed the ability to commit to their stakeholders at long term. Longer financial horizons, greater financial caution, the development of highly skilled workforces, and close relationships with suppliers have led companies and their managers to think about the future of their firm at long term. Furthermore, capital in Germany used to be characterized as 'patient' as the German system supported long-term capital investments, which did not underlie short-term decisions in response to volatile capital markets.

2.3.2 The classic environment of a stakeholder system

A corporate governance system basing on a stakeholder value approach evolves usually in the context of:

- code law countries;
- social democracies;
- a concentrated share ownership structure;
- bank-intermediated capital markets;
- a strong network of bank- and interfirm relations;
- low market capitalization;
- rather illiquid capital markets;

- a lack of detailed financial information disclosure[12];
- a non-existent or only a rather restraint market for corporate control;
- strong employee codetermination;
- a two-tiered board system.

The German economy, which has developed within the limits of a social democracy, has become one of the most prominent examples for a stakeholder value system of corporate governance. Germany is a code law country, which corporate law was initially codified in 1937, and subsequently modified in 1965. The role of the board of directors and the objective of the public corporation are defined as following, since 1937: "The managing board is, on its responsibility, to manage the corporation for the good of the enterprise and its retinue (*Gefolgschaft*), the common weal of the folk (*Volk*) and the state (*Reich*)." (Bradley et al., 1999: 52).

The importance of stakeholders in corporate governance, such as employees, the German society, and the German state, has been emphasized since the beginning of the 20th century.

However, nothing specific was mentioned about shareholders until the 1965 revision. Furthermore, the law also provides that if a company endangers public welfare and does not take corrective actions, it can be dissolved by an act of state. Although shareholders recently represent an important constituency in Germany, German corporate law has historically made it clear that shareholders are only one of many stakeholders on whose behalf the managers must manage the firm.

Generally, in stakeholder systems, politics can press managers to stabilize employment, to forego some profit-maximizing risks with the firm, and to use up capital in place rather than to downsize when markets no longer are aligned with the

---

12 Disclosure of financial data seems to be especially incomplete in comparison to the standards of information disclosure in shareholder value countries, like the USA or the UK.

firm's production capabilities. Therefore, common political pressures can induce managers to stray further than otherwise from their shareholder's profit maximizing goal (Roe, 2003).

Another significant difference between the USA, continental Europe, and Japan is the degree of the concentration of ownership and the control of capital sources. Ooghe and De Langhe (2002) have revealed in their study about shareholder concentration in Europe that the percentage of listed companies with shareholders owning more than 50 per cent of the shares is generally above 50 per cent in the traditionally European stakeholder-oriented countries, including Germany,

Table 2.3 Shareholder concentrations in continental European countries

Country	Percentage of listed companies with shareholders owning more than 50 per cent of the shares
Germany	63.5
France	53.00
Italy	65.85
The Netherlands	55.00
Belgium	42.6

Source: Ooghe/De Langhe (2002: 438).

Shareholder concentration in Germany may be principally explained by the power of banks in stakeholder-oriented systems, which is traditionally very strong. In contrast with banks in shareholder value systems, German banks are allowed to hold large blocks of shares in industrial companies on their own account. Furthermore, to a much greater extent than in the USA or the UK, individuals purchase their shares through banks and leave these shares on deposit with the banks. Therefore, banks have been able to exercise votes on the shares of these small, largely passive individual investors through a system of proxy voting[13]. Banks have thus been able to control upwards of 90 per cent of the votes exercised at many shareholder meetings.

In the 1990s, German banks did not only influence companies through share and proxy votes. Powerful multifunctional banks, "*Universalbanken*", have been creditor, shareholder, proxy voter, supervisor, and investment bank, in one. In Germany, traditionally each corporation has its own '*Hausbank*' (housebank), being creditor and strategic consultant at the same time for the company. Given the different preferences of shareholders and creditors, strong banks generally weaken the position of minority shareholders in corporations.

Table 2.4 Ownership structure of shares in Germany

Owner of the shares	**Amount / Portion of the blockholdings**				**Value of the blockholdings (in million EURO)**			
	1997		**2001**		**1997**		**2001**	
Private households and families	225	35%	303	39%	51,902	22%	110,763	22%
Financial sector	162	25%	150	19%	77,584	33%	158,496	32%
Industrial and commercial sector	158	24%	184	24%	31,214	13%	81,853	16%
Public sector	27	4%	36	5%	52,894	22%	72,291	14%
Others	80	12%	108	14%	23,406	10%	76,225	15%
Total	**652**	**100%**	**781**	**100%**	**237,000**	**100%**	**499,628**	**100%**

Source: Wójcik (2001: 13).

Summarizing the system of financing in stakeholder system, we can say that external corporate finance being dominated by bank loans, complements a strong capacity for internal finance in the absence of shareholder pressure, e.g. institutional shareholders, like mutual or pension funds (Corbett/Jenkinson, 1996; Borio, 1990).

[13] Data from the 1980s and 1990s has demonstrated that the three largest German banks exercised on average 84 per cent of the proxy votes in Germany's largest firms, while 40 per cent of outstanding equity is owned by non-financial firms (Schmidt/Tyrell, 1997).

Furthermore, capital markets in stakeholder-value-oriented countries are often considered as less efficient due to the lack of disclosure of important financial information, a generally lower market capitalization and market illiquidity.

In his work *Shareholder Value or Stakeholder Value?* Ray Shaw (2000) concludes:

> "It is claimed that the US capital markets are more efficient, arising from the need to provide much more public information, with capital flowing much quicker to more productive uses. Second, in the European/Asian model management is less likely to focus on value creation because the market price of shares is much less likely to reflect good information. Therefore, the market price of shares is often disregarded as the best indicator of management performance." (Shaw, 2000: 201).

Disclosure by Anglo-Saxon standards used to be considered as inadequate in Germany until the end of the 1990s[14]. Capital market regulations and accounting standards, moreover, used to weaken the position of minority shareholders and market mechanisms. For example, the German accounting rules according to the "*Handelsgesetzbuch*" (*HGB*) are creditor-oriented and are considered to lack the same transparency as found in International Accounting Standards (IAS) or the US General Accepted Accounting Standards (GAAP) (Jackson/Höpner/Kurdelbusch, 2004).

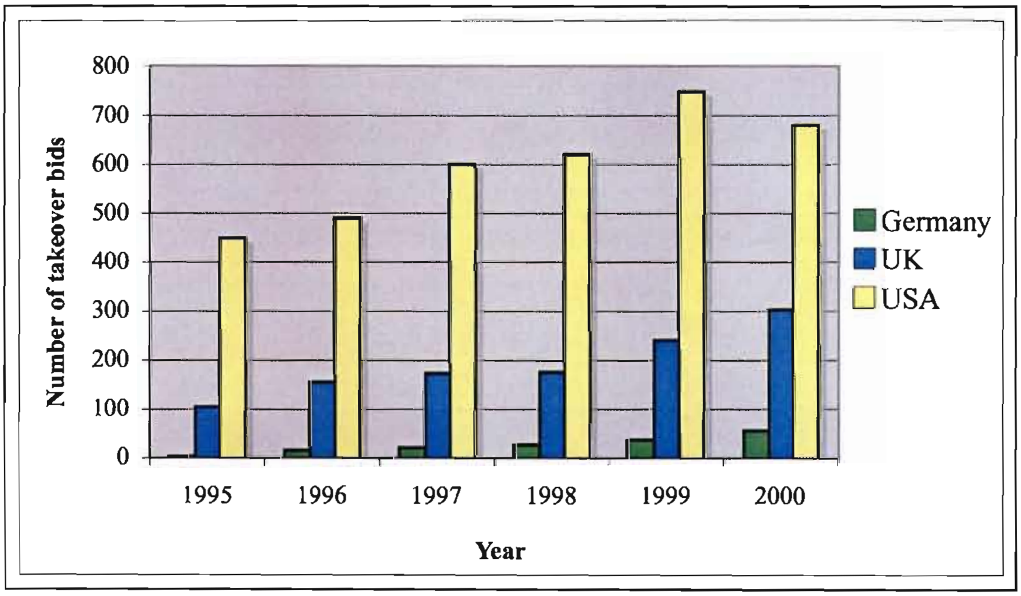
The market for corporate control is usually poorly developed in stakeholder systems. Prowse (1994) reports that during the period of 1985 until 1989, only 2.3 per cent of the market value of listed stocks was involved in mergers and acquisitions in Germany, compared to over 40 per cent in the USA. Hostile takeovers and leveraged buyouts were virtually non-existent, although there was formal takeover law. Only at the end of the 1990s the German market for corporate control slowly but steadily

[14] In an OECD survey of corporations, published in Paris, 1995, across the USA, Germany, and Japan, the companies were rated relative to OECD guidelines for full, partial or not implemented disclosure. Two thirds of the American firms surveyed met the full disclosure standard and the other third of US firms surveyed had partial disclosure. In contrast, none of the German firms surveyed met the OECD's full disclosure requirement.

began to develop. However, in comparison to the UK and especially the US market for corporate control, the German market is still relatively small.

In a study about the development of German corporate governance Helmis (2002) distinguishes the traditional German and the Anglo-Saxon system of corporate control among other factors by the evidence of the absence of an active market for corporate control in Germany, which has just recently started to develop to a significant level. Until the end of the 1990s there is no significant market for corporate control established in Germany according to the small number of takeover bids.

Figure 2.3 Number of takeover bids in Germany, the UK, and the USA

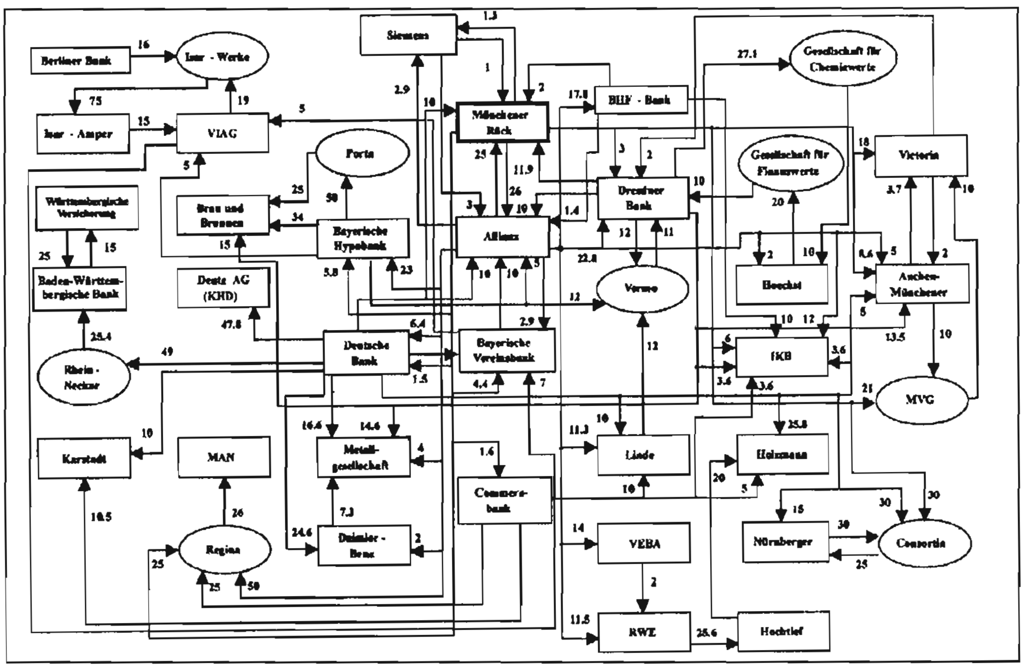


Source: Adapted from Helmis (2002: 53-55).

The system known as "*Deutschland AG*", implying a strong strategic inter-firm network, bank-intermediated capital markets, and a concentrated ownership structure, has protected the German corporations from the influence of international institutional investors and from hostile takeover attempts by outsiders until the end of the 1990s. The legal German framework, which allowed “intransparent” accounting standards and secured a high taxation of earnings derived from the sale of shares (until 2002), provided additional protection of the German economy against takeover threats.

A figure taken from a study of German cross-holdings by Adams (1999) illustrates to which extent large German companies (e.g. Siemens, Daimler-Benz AG, Hoechst, VIAG, RWE, etc.), banks (Deutsche Bank, Dresdener Bank, Commerzbank, Bayerische Vereinsbank, Bayerische Hypobank, etc.), finance and insurance companies (e.g. Allianz and Münchener Rück) have been interwoven among each other.

Figure 2.4 The German network of cross-holdings



Source: Adams (1999: 107).

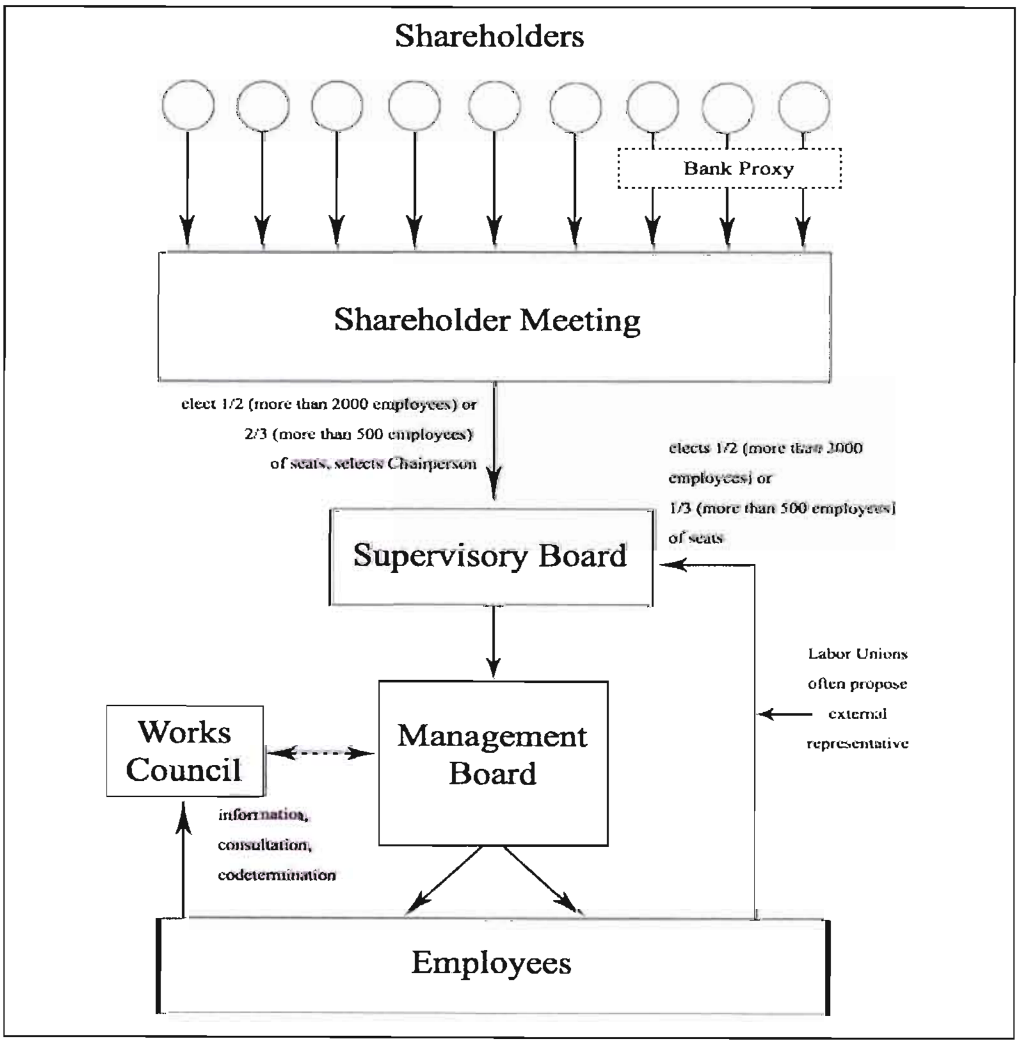
A powerful institutional mechanism, supporting the influence of banks and employees in stakeholder systems, like Germany, is the dual board system, which is mandatory for joint stock companies, the German "*Aktiengesellschaften*" (*AG*). The supervisory board, the so-called "*Aufsichtsrat*", is responsible for making key financial and strategic decisions and for appointing top management in the firm. The board of management, the so-called "*Vorstand*", has the responsibility for strategy implementation, i.e. day-to-day operations of the firm. The "*Aufsichtsrat*" can include outside directors, while the "*Vorstand*" consists of senior company managers (equivalent to the officers in a US company). Members of the supervisory board cannot serve as members of the management board and vice versa. Banks insisted on this governance reform of German company law in the wake of a wave of bankruptcies in the late 1800s (Jackson, 2001). Therefore, it is not surprising that banks nominate representatives to the supervisory boards of most large companies, including the chairs of these supervisory boards where their voting power is particularly large.

Employees, as a key stakeholder group in the German stakeholder model, enjoy particularly strong rights of representation within the firm through the institution of the works council and the election of a third (if the company counts more than 500 employees) or even of half (if the company counts more than 2000 employees) of the supervisory board members by the law of codetermination.

Employees have the right to elect delegates to works councils, the so-called "*Betriebsrat*", at the plant level. This works councils enjoy a wide variety of information, consultation, and codetermination rights vis-à-vis management. In multi-plant companies, plant works councils appoint delegates to a company works council (Helmis, 2002). Furthermore, in large corporations, defined as those with 600 employees or more, a specified number of the members of the "*Betriebsrat*" must be freed from work in order to attend to corporate matters.

The most notable aspect of the German corporate governance system is the fact that the supervisory board must be composed of a specified fraction of employees, depending on the size and industry of the firm. This practice known as 'codetermination' is a legislated guarantee of employee involvement in the strategy and operations of firms. The employee board representatives are elected both, by the workforce (typically top works councillors) and appointed by external trade unions (Helmis, 2002; Schmidt, 2004).

Figure 2.5 The Legal Structure of Corporate Governance in Germany



Source: Adapted from Jackson/Höpner/Kurdelbusch (2004: 49).

Concerning the firm's relation with workers, lifetime employment practices in stakeholder systems, such as Japan and Germany, along with state provisions have produced a pattern of sector-specific skills (Estevez-Abe/Iverson/Soskice, 2001). Moreover, incentives of workers to increase labour productivity are diminished where such measures are likely to threaten employment levels. From the management perspective, strong occupationally based skills contribute to functional flexibility in the workplace, and, therefore, substitute for external recruitment. The German training system organizes occupations into categories of overlapping skills that create a wide 'substitution corridor' between occupations (Sengenberger, 1987)[15].

Coordinated wage bargaining hinders the headhunting of skilled workers, providing a stable labour environment for the production of diversified quality products.

2.4 The convergence versus path dependence theory debate

Globalization has led to a debate about the validity of two different approaches in corporate governance research: the convergence theory and the path-dependence theory.

Convergence theories imply that there exists "one most efficient" global corporate governance system towards which all the other systems will converge naturally. According to most of the scholars this global system will be governed by the rules of the Anglo-Saxon system designed to maximize shareholder value (Hansmann/Kraakman, 2000).

---

[15] For example, apprenticeships in German metalworking occupations last 3.5 years. Six occupations share an identical basic training the first year. In the second year, these occupations split into three 'groups' that share an additional half a year of training. The next year is spent in training in six broadly defined occupations. Finally, the last 1.5 years are spent within one of 17 specializations. Unions have pursued a strategy of lengthening and broadening occupational training, thereby drastically reducing the total number of occupations over the last decades.

Path dependence theories, like the theory published in the work *A theory of path dependence in corporate ownership and governance* by Bebchuk and Roe (1999), point out that corporate ownership and the system of corporate governance are persistent structures. In this case persistence means that even though the structures have been built a long time ago, they will remain even if, today, they would not be developed in the same way. But why are the structures not changed and improved in order to match today's economic and political requirements? The answer is rather simple. Maintaining the same structures may be efficient in a basic economic sense: the costs of tearing them down and rebuilding them may exceed the value of a new improved model. Bebchuk and Roe (1999) mention two different kinds of path dependence: "structure-driven" and "rule-driven". "Structure-driven" path dependence explains why different stock ownership patterns may persist, even if legal rules converged. "Rule-driven" path dependence explains why, given the persistent differences in ownership structure, legal rules will not converge.

Concerning the way in which path-dependence affects corporate rules Bebchuk and Roe (1999: 129) explain that "a country's initial pattern of corporate structures will create interest groups and determine the power of groups to influence which corporate law rules will persist and which ones will change. If a pattern of ownership creates a group with positional advantage inside the firm, that group will often have the motivation and the means to preserve rules that favour it. Consequently, the rules that a country will have down the road will depend on the type of corporate structures and corporate rules that it began with".

In the conclusion of this master thesis, I will refer to the corporate governance 'convergence versus path-dependence' debate in the case of the German corporation DaimlerChrysler and the question: Does the German stakeholder system converge towards shareholder capitalism or does it only evolve within the limits of path-dependency?[16]

2.5 Contemporary German corporate governance research and debate

In this last section of the review of literature, I would like to give a short survey of the contemporary corporate governance research and debate in Germany.

The recent financial scandals affecting major American firms, such as Enron, WorldCom, and Arthur Andersen, and the resulting loss of confidence by the investing public in the stock market have led to dramatic declines in share prices and substantial financial losses to millions of individual investors. Both the public and the experts have identified failed corporate governance as a principal cause of these scandals.

Viewing the situation in the United States with alarm, European countries, like Germany, which are mindful of earlier financial scandals of their own[17], are examining their own systems of corporate governance in an effort to guard against similar abuses. Examining the German system of corporate governance, experts engage in a much-heated debate as to whether or not the changes in coordinated market economies can be interpreted as a process of convergence towards the Anglo-

[16] This question is at the heart of the German contemporary corporate governance debate, of which I will present a short survey in the next section.

[17] Examples for financial scandals in Germany are:
FlowTex, the company pretended to have sold 3000 drilling machines for each 1.5 million DM, between 1994 and 1999, publishing misleading financial information for shareholders and creditors.
Holzmann, the traditional German construction company, operating on a worldwide scale, went bankrupt due to mismanagement, which implicated even criminal behaviour. The accumulated loss in the year of bankruptcy, 2002, reached 2.4 billion DM. Gerhard Schröder tried to save the company in a last attempt, however, the company finally had to declare bankruptcy on the 21st March 2002.
ComRoad, a company traded on the "*Neue Markt*", which was created in 1997, at the German stock exchange in Frankfurt in order to supply young enterprises with equity (the American NASDAQ served as model), published false financial information, which led to the damage of shareholders and creditors and, finally, to the exclusion of the company from the German stock exchange.

Saxon system of shareholder value. Several authors avoid using the term 'convergence' and prefer to describe the recent developments in corporate governance as 'hybridization' in the German case (Casper/Kettler, 2000; Lane, 2000; Jackson/Höpner/Kurdelbusch, 2004; Vitols, 2000). A 'hybrid' model would combine elements of both stakeholder and shareholder value systems (Vitols, 1999).

In the context of this debate, an empirical study has been published by the Max Planck Institute, *"Corporate Governance in Transition: Ten Empirical Findings on Shareholder Value and Industrial Relations in Germany"* authored by Martin Höpner (2001), which discusses the shareholder value orientation of Germany's 40 largest corporations. A shareholder value index compiling data on accounting, investor relations, variable top-management compensation and the implementation of profitability goals makes it possible to compare the shareholder orientations of the companies. The shareholder value phenomenon is explained firstly by the exposure to markets - the international product market, capital market pressures and the market for corporate control - and, secondly, by internal developments - changing management careers, increasing management compensation and reduced monitoring by banks and corporate networks - which cause external impulses to increase shareholder value to fall on fertile ground. Höpner's study confirms that the current developments and changes in coordinated market economies, like Germany, can be identified as a convergence process. However, Höpner does not precise in his study to which extent the convergence process in traditionally stakeholder-oriented economies towards a market-driven shareholder-value-oriented economy leads to a hybrid model of corporate governance or rather to a complete transformation of the 'old' model towards a 'new' model.

In order to prevent the German system from abuses and, furthermore, in order to enhance the transparency of the German system for the international community, the German government decided to develop and publish a German code of corporate governance. A government commission, appointed by the minister of justice, adopted the German Corporate Governance Code (GCGC), on the 26th of February 2002. Through the declaration of conformity, in Article 161 of the Stock Corporation Act (AktG) in the Transparency and Disclosure Law, the GCGC has a legal basis.

The German Corporate Governance Code has the aim to make Germany's corporate governance rules more transparent for both national and international investors, thus strengthening confidence in the management of German corporations. Therefore, the Code addresses all major criticisms – especially from the international community – levelled against German corporate governance, namely:

- inadequate focus on shareholder interests;
- the two-tier system of executive board and supervisory board;
- inadequate transparency of German corporate governance;
- inadequate independence of German supervisory boards;
- limited independence of financial statement auditors.

Each of these five points is addressed in the provisions and stipulations of the Code, also taking into consideration the legal framework. Of course, the Code does not cover every detail of every single issue, moreover, it provides a framework which the individual companies will have to fill in. The Government Commission on the German Corporate Governance Code, appointed by the minister of justice, will remain in existence after the Code has been handed over. It will observe the development of corporate governance in legislation and practice in Germany and it will review the Code at least once a year for possible adaptation. The government has invited the public to take actively part in the development and improvement of the Code through comments and proposals[18]. Furthermore, Germany, as a member of the European Union, is also a member of the European forum for corporate governance. In October 2004, the European Union decided to create a European forum for

[18] The full version of the GCGC, in German, English, French, Spanish, and Italian, and further information about the government commission, is available on the following website, published by the German government: "http://www.corporate-governance-code.de/" (the last adopted change in the Code dates from the 12.06.2006).

corporate governance in order to support the harmonization of national codes and commissions.

One of the newest developments in corporate governance in Germany is the law for the obligatory detailed compensation disclosure of the members of the board of management. Since May 2005, the general disclosure of top management remuneration is not sufficient anymore. By the law, companies now have to publish the individual remuneration of each board member, an obligation, which already has a long tradition in shareholder value countries like the USA or the UK.

2.6 Conclusion

In the review of literature, I have presented and examined basic concepts of corporate governance. The main differences between the shareholder and the stakeholder value approach, as well as their characteristics and classic environment, have been described and pointed out. The two different corporate governance systems are illustrated in two sections by the examples of the USA and the UK (shareholder value) and Germany (stakeholder value). It is important to consider that the characteristics and the environmental features, which I have used to theoretically define the two different approaches, do not always occur at the same time or to the same extent.

The last part of the review of literature gives a short survey over the international 'convergence versus path-dependence theory' and the contemporary corporate governance debate in Germany. Many scholars are engaged in these two debates, which are surely linked and interwoven with each other. The case study of DaimlerChrysler and the analysis of its three markets (products and services, "talent", and capital) (Allaire/Firsirotu, 1993; 2004) may contribute another perspective to the development and change of corporate governance and management in German corporations.

CHAPTER III

RESEARCH MODEL

In this chapter, I present the conceptual research model on which this master thesis is based.

The research model provides the framework for the case study of DaimlerChrysler. It is a very specific lens through which one may examine the complex phenomena of shifts and changes in German corporate structures and governance. This research framework, well grounded in theory and empirical work, will provide the intellectual tools to zero in the role of markets and their influence in shaping the character, strategies, and governance of modern corporations. I will consider this argument further in chapter IV.

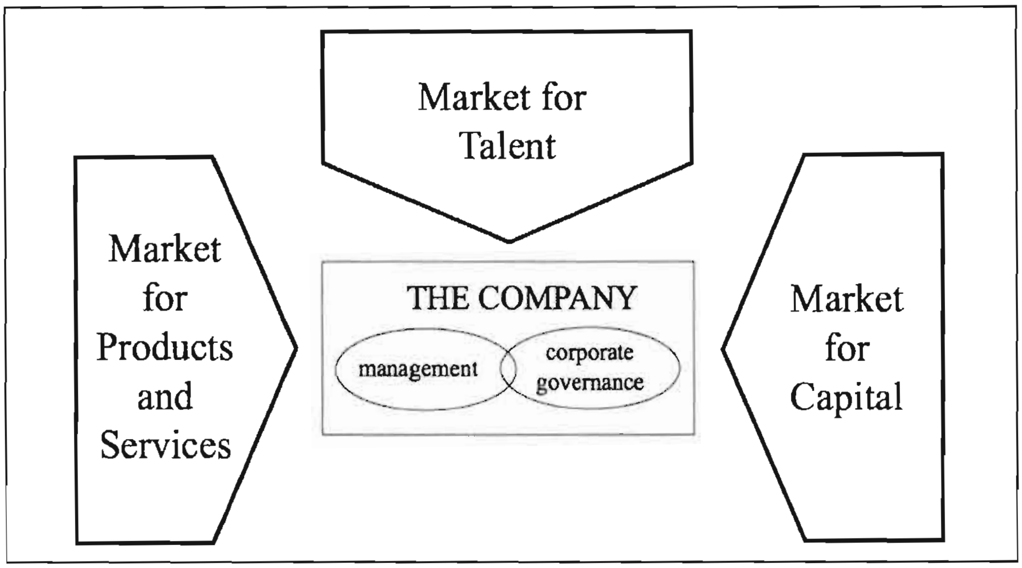
3.1 The model of the three markets

The Canadian researchers Yvan Allaire and Mihaela Firsirotu have proposed in a number of publications (1993; 2004; 2007) that corporations are buffeted by three increasingly efficient markets, the product and service market, the financial markets, the market for 'talent". For these authors, the ways in which companies cope with the pressures from these three markets define their strategy and determine their viability. The extents to which these three markets influence companies are variable across time period and national boundaries.

Clearly, the so-called Anglo-Saxon countries have been leading the way in removing barriers and impediments to the efficiency of these three markets; but gradually, some of the features of this Anglo-Saxon model have been seeping in or were willingly adopted by corporations operating in most developed countries.

Figure 5 presents synthetically this concept of the corporation as located at the nexus of three markets. I shall briefly review how, according to Allaire and Firsirotu (1993; 2004; 2007), these three markets have changed and now influence the management and governance of companies.

Figure 3.1 The company in the context of the three markets



Source: Own illustration (2007).

3.1.1 The market for products and services

From the 1980s on, under the influence of the Reagan-Thatcher policy orientation in the USA and the UK, industries were deregulated, state-owned companies were privatized, and domestic markets were opened to international competition. New communication technologies created new industries and changed the way of doing business in scores of "old" industries. Companies had to adjust to these new realities. They undertook to "re-engineer" and "downsize" their operations, to outsource and offshore large slices of their operations to low-cost producers often located in less developed countries.

These changes have forced companies to undertake rapid and 'painful' adjustments to maintain their position in highly competitive markets. The competition for resources, the quest for innovative products, the implementation of cost effective production methods and models have come to define the strategy of a company.

Furthermore, the relocation of production sites to developing countries, like China or Vietnam, and the downsizing of the industrial work force in developed countries, like in the UK or in Germany, for cost saving effects have a major impact on the entire organization. The legal protection of employees and their right of codetermination, the regulations concerning environmental protection, and the role of suppliers are usually very different in developing and in developed countries, affecting thus a change in the management and in the corporate governance of companies that relocate their production from industrialized to developing countries.

3.1.2 The market for "talent"

With the deep recession of 1981-82, North American companies, one after the other, started to default on their implicit contract with their employees, at least those in managerial ranks, whereby these employees could expect a high level of job security and a policy of exclusive internal promotion. However, the growing pressures from financial markets and from the increasingly competitive product markets made it possible, or so it seemed, for companies to remain steadfast in these commitments.

They needed the ability to expand and contract their staffing in tune with market demand and the flexibility to seek out new skills not available within the company. Boards of directors came to believe, in many cases, that recruiting some outsider as the new Chief Executive Officer (CEO) was essential to shake up the company and meet its new challenges.

Of course, managers and executives understood that their employer did not guarantee their economic security and career advancement any longer. Good career planning meant being on the lookout for job opportunities elsewhere. These goings-on have led to the emergence of a "secondary market for the talent" of managers, executives and technical specialists.

"Headhunters" and recruitment agencies became sorts of brokers in this market for talent, linking companies and people in an increasingly efficient manner. However, as with every situation where a market is created, the price of talent increased rapidly and very unequal prices were attached to the skills of different people. The size and nature of executive compensation became a source of concern to shareholders and societies at large. Once the Pandora's Box has been opened, markets have their logic and consequences, whether one likes it or not.

On the positive side, the development of a market for skills and talent made it easier for companies to adjust and adapt to new competitive circumstances; It provided management with a larger share of the economic pie, thus compensating them for increased career risk.

On the negative side, it prevents companies from appropriating the benefits of training and development of their people, of building lasting competitive advantage on the basis of the singular skills of its personnel, as these may well be recruited by other companies including direct competitors. It induces a mercenary attitude in managers and executives, a calculus of career enhancement, a strategy of self-promotion, which may well lead to a short-term orientation in their decisions and actions.

3.1.3 The financial markets

The shareholding of companies saw a profound metamorphosis during the period between 1980 and 2005. In several countries, like the USA, the UK, Canada, and Australia, institutional investors own more than 50 per cent of all shares of publicly traded companies. These institutional shareholders come in various forms, have different time horizons, and implement distinct investment strategies. They all share, however, the postulate that management should be entirely and solely devoted to increasing the value of their investments.

Whatever action must be taken to that end should be taken, be it the replacement of the CEO, various financial manoeuvres, the outright sale of the company, mergers and acquisitions, etc. Most importantly, management must not disappoint them, but must meet their expectations of earnings per share on a quarterly basis. To align the interests of management with their own, institutional shareholders were favourable to generous stock option plans, until these turned out to be the proximate culprit in some of the financial scandals of the 2001-2002 season.

As a result, from the 1980s onwards, companies in the Anglo-Saxon countries moved gradually away from the "stakeholder" model that had dominated the corporate landscape during the period 1950-1980. They switched progressively to the "shareholder-value-creation model". In Continental Europe and Japan, some movement in that direction may also be observed since the mid-1990s.

The institutional investors are also a globalizing force as they seek to impose their will and objectives on the management and governance of companies in every country to which they migrate in search of higher returns. The influence of capital markets has grown worldwide with the support of, or in spite of, government policies. As a result, companies wherever located must meet more stringent requirements in terms of their governance, minority shareholder protection and financial performance.

3.2 The relationship between companies and the three markets

The role and the importance of the three distinct markets: products and services, "talent", and capital, for the relationship between companies and their markets and, thus, strategic management, vary according to country specific factors and the period of time.

3.2.1 The period of time

During the last twenty years, markets have become more and more important for the formulation of corporate strategy, the character of leadership, and the style of management. Furthermore, the globalization of markets has led to an increase of global market pressures on firms worldwide. In order to survive in an environment of global competition for products and services, "talent", and capital, companies are 'driven' to develop the ability to adapt to the new situation and to invent new corporate strategies, thus gaining a comparative advantage against other competitors in the market.

Allaire and Firsirotu (1993; 2004) have named the company model, which has been in place before the emergence of strong market forces stemming from the three markets, product and services, talent, and capital, the period of 'the model of reciprocal loyalty' ("*le modèle de la loyauté réciproque*"). This model largely resembles the "stakeholder model" previously discussed. Allaire's and Firsirotu's (1993; 2004) approach, however, focuses on the relationship between individuals (e.g. employees, including management) and the organization. In earlier times, before 1980, employment security and mutual loyalty between employees and employers played a very important role, not only in Continental Europe and Japan, but also in Anglo-Saxon countries, like the USA, the UK or Canada. Managers were recognized as highly legitimate and credible among workers as they have worked for years in the company, climbing step by step the company's internal career ladder.

Furthermore, managers cooperated with workers and unions for the good of the company, trying to find solutions that reflected both the interests of management and the interests of employees (see chapter II, the stakeholder approach). In a model of reciprocal loyalty employees and internal job training, to enhance the skills and specific professional abilities of employees were regarded as human assets, immovable and difficult to replicate by competitors, being thus critical sources of competitive advantage.

In this system employees were becoming firm specialists rather than functional specialists, thus having an inferior economic value for other employers than his/her own. The remuneration system was generally based on the employee's position in the company's hierarchies and on the time he has worked for the company. Variable performance based incentives for management employees were not present.

The model of reciprocal loyalty (Allaire/Firsirotu, 2004) does not only possess positive aspects. Problems occur when companies become ineffective institutions, which lack the ability to respond to market pressures: a place, where employees and managers, 'imprisoned' in daily routine, are psychologically unable to make necessary flexible decision for the wellbeing of the firm. However, the time of the *man in grey flannel* or *organization man,* symbol for stubborn hierarchies and conformism, is already over in Anglo-Saxon countries since the beginning of the 1980s.

Figure 3.2 shows a synthesis of the changes from 'the model of reciprocal loyalty', the stakeholder model, to 'the model of the three markets', the shareholder value model. I will refer again to this synthesis analyzing the changes at DaimlerChrysler in chapter V.

Figure 3.2 The two models of the corporation by Allaire and Firsirotu

Governance in the...

"Reciprocal loyalty" model

- Recruitment at graduation from schools and colleges;
- Intense socialization to company values and culture;
- Promotion from within almost exclusively;
- Job security, employment "for life";
- Tenured executives, with no exit, highly dependent on the company's wellbeing for their own, now and in the future; variable compensation rather modest;
- Management does not seek to maximize stock price; will not seek to maximize stock price; will not take any untoward or even risky action if that might put their career in any jeopardy;
- Regulated, protected or dominated product markets,
- Shareholders, **but one** stakeholder; retained earnings the main source of funding; shareholders expect dividends, are fragmented and generally passive;

Board governance: a placid, relaxed affair with little risk of management misbehaviour (e.g. IBM in the 1980s).

"Three markets" model

- Active market for talent: executive search firms, etc;
- High level of mobility of talent from company to company;
- Mobile executives seek full market value for their "talent"; calculative assessment of best time to switch companies; "talent" is key asset of any business;
- Selection process pits internal candidates against external search;
- Little or no job security;
- Shareholders (fund managers, etc.) and analysts pressure top management for stock performance, and for their replacement if it proves unsatisfactory;
- Deregulated, internationally, competitive, product markets;
- Shareholders, **the prime (and only?)** stakeholder;

Governance here a tough, risky business; particularly if board members still believe they are operating in the "loyalty model" (e.g. IBM from 1992 onwards).

Source: Adapted from Allaire and Firsirotu (1993; 2004).

Market-driven corporations, which face the challenges and the pressure of the three markets, as described in figure 3.2, have to develop and create new systems of management and corporate governance to successfully create value in a changed environment.

Allaire and Firsirotu (2005)'s concept of value-creating governance can be considered as an example for the successful creation of long-term value within the context of the three markets. The four pillars of value-creating governance, the legitimacy and credibility of principals (board members), the efficiency of strategy processes and dialogue between management and directors, the quality of financial and strategic information, and the design of the compensation and incentive system are the basis for the development of a strong system of management and corporate governance within the framework of the three markets.

3.2.2 The country specific factors

Country specific factors, like the economic, legal, and socio-political context of a society, have a very important influence on the complex relationship between companies and their markets. The dynamic socio-economic environment of a company, being the basis for daily decision-making, needs to be considered by companies for the development of strategic management and corporate governance.

Social values, the mobility of talent and resources, political structures, the legal and economic system, the character and the functioning of financial and commercial markets differ to a high degree from one country to the other (or even within the boundaries of one country). Therefore, it is rather evident that companies face different challenges and requirements, developing their corporate strategy and system of governance. Consequently, companies have to adapt their strategic management and corporate governance system to the particular context in which they evolve.

3.3 Conclusion

The model of the three markets developed by Allaire and Firsirotu (1993; 2004), corresponding to the model of shareholder value previously discussed, builds the framework for the case study of DaimlerChrsyler and, furthermore, the basis for the analysis of the shifts and the changes, which occurred in German corporations during the 1990s.

In the following chapters I will investigate to which extent the style of management and corporate governance at DaimlerChrysler has converged from a model of reciprocal loyalty, representing a stakeholder approach, to a model of the three markets, representing a shareholder value approach.

CHAPTER IV

METHODOLOGY AND RESEARCH PERSPECTIVE

In this chapter I will present the research perspective and the methodological framework of this thesis. The research methodology applied in the case of DaimlerChrysler will be precisely described and, furthermore, theoretically justified. Chapter I, covering the development of the research questions, can be considered as a first introduction to the research perspective of this study.

4.1 The research perspective

The design of a research study begins with the selection of a paradigm and a topic. A paradigm is essentially a worldview, a whole framework of beliefs, values and methods within which research takes place. It is this world view within which researchers work. Kuhn (1996) defines a scientific paradigm in his work, "*The Structure of Scientific Revolutions*", as follows:

- *what* is to be observed and scrutinized,
- the kind of *questions* that are supposed to be asked and assumed in order to find answers in relation to this subject,
- *how* these questions are to be structured,
- and *how* the results of scientific investigations should be interpreted.

Alternatively, the *Oxford English Dictionary* defines a paradigm as "A pattern or model, an example". Therefore an additional component of Kuhn's definition of paradigm is:

- *how* an experiment is to be conducted, and *what* equipment is available to conduct the experiment.

For this study I have chosen to adopt a distinct perspective, namely the conceptual model of the three markets developed by Allaire and Firsirotu (2004), which I will apply to my research topic. The company, its corporate structure, its model of corporate governance, its strategic orientation, and its organization stand in the focus of this research perspective. The case of DaimlerChrysler is, therefore, considered from a market perspective, revealing in a unique way how and to which extent global market forces have an effect on the way a market-driven German corporation is managed and governed.

In their work *Stratégies et moteurs de performance : les défis et rouages du leadership stratégique*, Allaire and Firsirotu (2004) explain logically the perspective through the three markets, capital, "talent", products and services. The model is a profound and sound research model, which enables the researcher to improve the understanding of changes in the corporate structure in economies worldwide. Of course, the market context is not the same in North America, Japan, France, or Germany, however, the company can always be viewed through the "three markets" perspective. The study of the impact of the three market forces on the management and on the corporate governance structure of corporations in Germany, one of the world's leading economies, adds an important aspect to the existing research work, which is based on the model of the three markets (Allaire and Firsirotu, 1993; 2004). Furthermore, this study may account for a new research perspective in the contemporary corporate governance debate in Germany.

The review of literature, based on classic and modern corporate governance research, may allow understanding the essential principles and arguments on which the contemporary German corporate governance debate is based. This understanding is important in order to analyse and evaluate the case study of DaimlerChrysler. The case study, which will be methodologically justified in this chapter, will be developed in chapter V, VI, and in the final conclusion.

4.2 The research methodology

In the following section, I will discuss and justify the approach, the research strategy, the techniques and methods, which I have applied in order to carry out the research work for this master thesis.

4.2.1 A qualitative approach

According to Cresswell (1994) "A qualitative study is defined as an inquiry process of understanding a social or human problem, based on building a complex, holistic picture, formed with words, reporting detailed views of informants, and conducted in a natural setting.

Alternatively a quantitative study, consistent with the quantitative paradigm, is an inquiry into a social or human problem, based on testing a theory composed of variables, measured with numbers, and analyzed with statistical procedures, in order to determine whether the predictive generalizations of the theory hold true."

The methodology of this master thesis is based on a qualitative approach. Basically, there are two reasons why I chose a qualitative rather than a quantitative approach:

- First of all, a quantitative approach needs to be based on a relatively large sample in order to provide legitimate results. Several international, European, and German research[19] institutes have conducted intensive in-depth studies

[19] Some of the best known research institutions for corporate governance worldwide are: the Berlin Center of Corporate Governance (BCCG), Germany; the Centre for Corporate Governance Research, Birmingham University, UK; the Weinberg Center for Corporate Governance at the University of Delaware, USA; the Corporate Governance Initiative, Harvard Business School, USA; the Olin Center for Corporate Governance, Harvard Law School, USA; the International Institute for Corporate Governance (IICG), Yale School of Management, USA; and the Max Planck Research Institute, Germany.

about the development of the German corporate structure since the 1990s[20]. The majority of these studies are based on a sample of at least 30 companies, e.g. the 30 German DAX companies[21]. Some of these studies include research on the impact of certain market forces, e.g. the development of the German capital market and its impact on management and corporate governance in German corporations. However, there exits no quantitative study that examines explicitly the impact of all three markets: products and services, "talent", and capital, according to the model of Allaire and Firsirotu (2004). In fact, I will use some research evidence from already conducted quantitative studies in order to base my argumentation on realistic facts and figures. The conduct of a new quantitative research for the purpose of this master thesis would have been difficult regarding the scope and the availability of the needed database and, as a matter of fact, not necessary regarding the volume and quality of the existing research work.

- The complex nature of the research topic of this master thesis implies the concentration on a sample of one, on a longitudinal basis, in order to allow a thorough analysis of the research topic. The analysis of the case of DaimlerChrysler, through the three-markets perspective (Allaire/Firsirotu, 1993; 2004), demands a great volume of information and interesting diachronic insights into the German corporate structure of the last 15 years. The case study of DaimlerChrysler thus contains enough relevant research material for an in-depth analysis of the three markets, services and products, "talent", and capital, which finds itself at the heart of the research work of this master thesis (see chapter VI).

---

[20] A study published by the Max Planck Institute, "Corporate Governance in Transition: Ten Empirical Findings on Shareholder Value and Industrial Relations in Germany" authored by Höpner (2001), which discusses the shareholder value orientation of the 40 largest German corporations.

[21] DAX or Xetra DAX is a Blue Chip Index listing the 30 major German companies. Prices are taken from the electronic Xetra trading system.

Examining the changes and shifts in the management and the governance of German corporations during the 1990s, a rather complex phenomenon, I chose to use a case study method for this master thesis. According to Yin (1994), a case study research is to be considered the appropriate research method or tool, if:

- the research questions concern the "Why" and "How" of a phenomenon;
- the investigator has little or no control over the events;
- and/or the research focuses on a contemporary phenomenon in a real-life context.

In fact, in order to analyze the underlying events and the dynamic of a major change in a given structure, in our case the German corporate structure, it is sensible to undertake a longitudinal research. The research period should also cover a certain period of time before and after the major events of change, examining which factors have led to the change and, furthermore, which outcome the change caused. The case study of DaimlerChrysler covers a period of fifteen years, from 1990, the year, which most corporate governance researchers (Bradley/Sundaram, 2003: 10; Helmis, 2002: 9; Jackson/Höpner/Kurdelbusch, 2004: 1; Schmidt, 2004: 8) consider as the beginning of the period of major changes in the German corporate structure known as "*Deutschland AG*", until today. Furthermore, the end of the 1990s indicates also the final period of major changes in the management and the corporate governance structure of German corporations. The end of the 1990s stands for the final decline of the "*Deutschland AG*" and the beginning of a new economic era.

With the end of the system called "*Deutschland AG*" came the decline of the role of banks, the unwinding of corporate networks, the rise of foreign and institutional investors, an emerging market for corporate control, and changing careers and compensation of top managers are just some aspects of the period of 1990s, which had an major impact on the conduct and the purpose of the German corporation.

In chapter V, presenting the Daimler-Benz - later the DaimlerChrysler - Corporation, I will examine in depth the corporate shifts and changes of the company between 1990 and 2005. Subsequently, I will analyze the evolution of the three markets during the same period, in the following Chapter VI.

The approach of this master thesis is to a certain extent rather descriptive as we are studying the evolution of a phenomenon over a certain period of time, examining the impact of the evolution of the three markets, products and services, "talent", and capital, on the management and the corporate governance of German corporations during the period of 1990-2005.

The methodological application of the case study method, as in the case of DaimlerChrysler, is increasingly accepted among well-known scholars of the scientific community as the method permits to elaborate well-based theories (Eisenhardt, 1989).

According to Yin (1994), the methodology of the case study can be considered an excellent research tool for the testing of existing theories, providing, furthermore, a hypothetical general analytic model. Moreover, Koza and Lewin (1999) point out that case studies, with a long-term time horizon, allow to formulate empirical and at the same time theoretical interpretations about a contemporary phenomenon.

Firsirotu (1984) uses a long-term case study approach in her Ph. D. thesis[22], "*Strategic Turnaround as Cultural Revolution: The Case of Canadian National Express*", examining the radical transformation of Canadian National Express (CNX) in order to propose a conceptual model, which has been empirically tested, for the

[22] In 1985, Professor Mihaela E. Firsirotu received the AT Kearney research price for the best Ph.D. thesis in North America from the Academy of Management.

formulation and implantation of strategies for a radical change in complex organizations.

A case study is primarily based on qualitative data, which interest can be multiple. However, qualitative data permits to present a phenomenon, respecting the chronological order of events. Precise and well-chosen relations of 'cause and effect' allow the researcher to develop a new integration and new concepts of the investigated phenomenon (Huberman/Miles, 1994).

Eisenhardt (1989) reminds to consider the problem of asphyxia of the data used in a case study of a contemporary phenomenon. The definition of research limits and the review of scientific literature and public studies, concerning the analyzed phenomenon, are essential in order to develop and justify a new concept in a case study.

Finally, the importance of a master thesis is based on its validity, which is at the same time a major challenge to the student conducting the research of the master thesis. Otherwise, would a scientist, who possesses access to the same information and data, draw the same conclusion as the student conducting the research of the master thesis? Concerning this question, Firsirotu (1984) points out, for her research work on CNX, that another scholar or professional researcher could have drawn another conclusion upon the results of the analysis of the same information and data. She insists on the fact that the explicit and detailed character of her case study as well as the precise identification of research sources represents the essential argument for the validity of her work.

In the same way, this master thesis provides an explicit research concept and provides detailed and précised information about the sources, data and other sources of information, on which this case study is based.

4.2.2 The research concept

The analysis of this master thesis is based on the model of the three markets, developed by Allaire and Firsirotu (1993; 2004). The theoretical approach of the model and the three distinct markets, the market for products and services, the "talent" market, and the market of capital, have been already presented in detail in Chapter III.

The research model developed by Allaire and Firsirotu has been a guide for the choice of literature and the relevant data on which this research work is based. The research topic: managing and governing in a market-driven corporation, implies already in the word "market-driven" the relevance of market forces for the management and the governance of corporations. Allaire and Firsirotu (1993; 2004) have developed the model of the three markets in the context of the evolution of modern corporations; from a traditional corporate model of mutual loyalty between the company and its stakeholders, e.g. employees, towards a more shareholder-value-oriented company, depending on the evolution of the three markets, products and services, "talent", and capital. The phenomenon of changes and shifts in the German corporate culture, often called "*Deutschland AG*", in the 1990s, offers an interesting opportunity for an analysis through the perspective of the three markets. In how far, did these three markets trigger and drive the changes in the management and corporate governance of German corporations?

In Chapter VI, I will individually describe and analyze the development of each of the three markets and their impact on Daimler-Benz, later the DaimlerChrysler Corporation, from 1990 until 2005. In the last chapter, I will draw a general conclusion about the importance and the impact of the three markets on the management and the governance in the Daimler-Benz, later DaimlerChrysler Corporation. Moreover, I will evaluate to which extent the case of DaimlerChrysler can be considered an example for the development of other German corporations in the 1990s.

4.2.3 The research sample

In this section, I will justify why I have chosen the case of DaimlerChrysler for this study. As I have already mentioned above, it is sensible to limit the number of companies in a sample to one case study, when a complex phenomenon, like the changes in the German corporate culture and structure, is studied in depth. Moreover, Hamel (Hamel/Dufour/Fortin, 1993) and Yin (1984; 1993; 1994) argued that the relative size of the sample whether 2, 10, or 100 cases are used, does not transform a multiple case into a macroscopic study. The goal of the study should establish the parameters, and then should be applied to all research. In this way, even a single case could be considered acceptable, provided it met the established objective.

The choice of DaimlerChrysler for this case study can be justified upon several facts and arguments, pertaining to the cultural, organizational, legal, and economic characteristics of the corporation:

- DaimlerChrysler has been the largest manufacturing corporation in Germany throughout the 1990s until today. Its principal trading markets were Frankfurt and New York, but, furthermore, the company stock was traded in Germany on Berlin, Bremen, Düsseldorf, Hamburg, Hanover, Munich, and Stuttgart, in the United States on the Chicago Stock Exchange, and the Philadelphia Stock Exchange, and elsewhere on Paris, Tokyo, Toronto, and Zurich. The economical importance of DaimlerChrysler for the German economy and, moreover, its impact on other German corporations, the German capital market, the German corporate culture and corporate governance system, the German management elite, employees in Germany, the supplier industry, and the

German society itself, have been major reasons for the choice of DaimlerChrysler as subject of this case study.

- The Daimler-Benz *Aktiengesellschaft* (AG), one of the pioneers of the automobile industry and one of the greatest corporations of the twentieth century, was founded in 1924. The company was the result of a merger between Daimler-Motoren-Gesellschaft, founded in Stuttgart by Gottlieb Daimler in the year 1890, and Rheinische Gasmotoren-Fabrik, founded in Mannheim by Karl Benz in the year 1883. In 1910, Daimler shares commenced trading on the Stuttgart exchange and Benz was the world's largest automobile manufacturer, with sales of 603 automobiles. During the following eight decades the company grew almost continually. Daimler-Benz can be considered as one of the oldest German corporations. Its corporate culture has been based on traditional German corporate values, for example, loyalty between the employer and employees, honesty, diligence, innovation, the importance of high quality work, precision, German engineership, teamwork, and a strong believe in technology. Considering that Daimler-Benz is one of the oldest German companies with a traditional German, or I may even call it "*Schwäbisch*" (= Swabian) culture (see chapter V), the company makes a very interesting case for the study of shifts and changes in the management and in the corporate governance of market-driven corporations in the German context under the impact of its various markets.

- The continued importance of the automobile sector to the national economy in Germany, and DaimlerChrysler being one of the most important German automobile manufacturers, make the company from Stuttgart an excellent choice for this case study. The automobile sector that has been termed the "industry of industries" can be considered as one of the most internationally exposed sectors, and remains one of the largest employers in Germany. According to Foudy Jr. (2001: 13), who compared the influence of shareholder value on the German and Japanese model in a case study of the automobile sector, the automobile sector is an excellent test for comparative advantages created in organized market economies, like Germany or Japan, due to *"the complex nature of automobile assembly, its multi-tiered supplier system and long product design cycles (...)"*.

- A further interesting aspect of the DaimlerChrysler case lays in the abrupt confrontation with the American business model based on shareholder value at the time of the merger with Chrysler, the 'all' American automobile manufacturer from Auburn Hills. The consequences of the merger with an American corporation for the management and the governance of DaimlerChrysler will be further discussed and examined in chapter V.

- Another reason for the choice of DaimlerChrysler in this case study is the fact that the German corporation underwent important changes in the period of the 1990s. Therefore, the company makes an interesting research case for a study about the changes and shifts in the management and the governance of German corporations.

4.2.4 The sources

The research is principally based upon secondary sources. However, I have also collected some primary sources, conducting individual interviews with several DC employees and a former Daimler-Benz financial assistant manager, who used to work for the board of management at the former Daimler-Benz headquarters in Stuttgart-Möhringen[23], on internal changes in the corporate organization during the 1990s, and discussing research questions about the development of corporate

[23] In the year 2006, the DaimlerChrysler headquarters, which were titled by the former CEO Jürgen E. Schrempp as 'bullshit castle', were transferred from Stuttgart-Möhringen to the headquarters of Mercedes-Benz in Stuttgart-Untertürkheim (see chapter V).

governance and shareholder value methods in Germany with scholars and experts from several specialized academic institutes in Kiel and Berlin.

Therefore, the collected research may be divided into three different types of sources:

- **Scientific international corporate governance literature:**
  Concerning the beginnings of the corporate governance theory, the stakeholder and shareholder value model, the path dependence theory, the convergence theory, and the corporate governance debate in Germany, the three markets model of the corporation and the value creating governance system.

- **Publications concerning the DaimlerChrysler Corporation:**
  Documents published by the company, e.g. annual reports, shareholder information published following the merger with Chrysler, the corporate web site, legal information provided to the SEC (Security Exchange Commission), the German stock exchange (Frankfurter Börse) or the Deutsche Bank and the OECD. Secondary literature that I have used for the study of the DaimlerChrysler Corporation includes several books about the Daimler-Benz Corporation, the merger process with the American automobile manufacturer Chrysler, as well as a biography of the former DaimlerChrysler (DC) CEO Jürgen E. Schrempp, press articles (mainly articles from the German Press: *Handelsblatt, Frankfurter Allgemeine Zeitung (FAZ), Spiegel, or the German Financial Times,* but also from the international press: *New York Times, Financial Times International, Herald Tribune, or the European Times*, and web sites (e.g. the online dossier about DaimlerChysler published by the FAZ).

- **Primary sources:**
  Firstly, I could collect interesting pieces of information about the German and international corporate governance debate during discussions and interviews

with corporate governance experts. For example, at a meeting with the stakeholder value expert professor R. Edward Freeman invited from the University of Virginia at the 2nd International Conference on "Corporate Social Responsibility" at Berlin, organized by the Humboldt University of Berlin between the 12th and the 13th of October 2006. Furthermore, searching for new interesting literature on the topic of corporate governance changes in Germany at the Berlin Centre for Corporate Governance[24] located at the Technical University of Berlin, the German Institute for Corporate Governance[25] part of the Institute for Management and located at the Humboldt University of Berlin, and the Institute for International Economy[26] at the University of Kiel, I had the occasion to meet research assistants and professors, who were specialized in this field.

A second primary resource for this master thesis are the individual interviews which I have conducted with several DC employees, working for Airbus and Mercedes-Benz in Bremen, and a former Daimler-Benz financial assistant manager. For the interviews, I prepared a general questionnaire, in

---

[24] The Berlin Center of Corporate Governance (BCCG) was founded on the July 8, 2002 at the chair for Organization and Management of the Technical University of Berlin (Prof. Dr. Axel v. Werder) with the support of some of the greatest companies in Germany.The BCCG may be considered as the German centre of competence for all questions concerning the governance and the control of corporations. The institute serves, furthermore, as a platform fort the exchange of knowledge and information between the academic world and the German economy. The two main aims of the BCCG are: Firstly to gather information on the practice of corporate governance in Germany and, secondly, to improve the empirical data base of the German corporate governance debate.

[25] The field of research in the German Institute for Management at the Humboldt University of Berlin is rather broad. International Management, Strategic Management, the theory of decision-making and und industry economy belong to this field. Research projects are first of all theoretic but researchers explicitly aim to make them relevant for practice. Together with foreign universities the institute works on following contemporary research projects: Management compensation und corporate control; International competition and corporate cooperation; Corporate reputation; and Trust in corporate cooperation and the influence of multiple cultures.

[26] *Institut für Weltwirtschaft der Universität Kiel (IFW)*: The Kiel Institute for International Economy is an international centre for research in global economic affairs, economic policy consulting, economic education and documentation. Founded in 1914 by Bernhard Harms, the independent institution, is afilliated with the Christian-Albrechts-University of Kiel and is a member of the *Wissenschaftsgemeinschaft* Gottfried Wilhelm Leibniz (WGL), which unites institutes and service providers of supra-regional importance.

German, divided into three sections with questions concerning personal data (e.g. for how long the person has worked for the company; what his/her position and task have been during this time;), the corporation (e.g. which internal changes and shifts they have noticed during the 1990s; how they recognized the change from the era of Edzard Reuter to Jürgen E. Schrempp; to which extent the company changed after the merger with Chrysler; how they evaluate the importance and influence of the three markets on the company;), and finally, the corporate governance in Germany (e.g. if they have noticed a change from a shareholder value towards a stakeholder model approach; or if they consider shareholder value tendencies in Germany only as a short-term phenomenon, which companies use in order to realize rationalization measures in economically difficult times).

During the interviews I had the opportunity to ask further questions or to concentrate on one specifically interesting topic. All the interviewees only confirmed to be interviewed, if their identity is not revealed in this master thesis as the content of the interviews implied sensitive personal statements and subjective opinions towards the employer. Even if the number of conducted interviews is rather restraint and the interviewees only confirmed to be interviewed anonymously, the personal views on the company DaimlerChrysler and the corporate changes it underwent during the 1990s have been enriching pieces of information for this research work.

The primarily use of secondary sources is rather a necessity than an obligation. The evaluation of financial data and secondary sources on the management of DaimlerChrysler, as well as secondary sources on the development of the three markets with a global and a national perspective and, furthermore, the development of the corporate governance system in Germany, make the platform of this study. However, the collected data from primary sources helps to complete the picture of internal changes within in the organization of DaimlerChrysler during the

1990s and, concerning the corporate governance debate, supports, criticizes, or limits certain theoretical arguments from secondary sources.

Of course, it would have been also interesting to interview the members, or former members, of the management and supervisory board of DaimlerChrysler on the research topic of this study, but the access to this group of people is rather restraint and it was not possible for this study. The absence of such primary sources and data enables me, on the other hand, as Allaire (1992) already pointed out regarding his research experiences, to maintain a certain distance towards the actors involved in the studied events. According to Allaire (1992) a certain distance towards the studied events and their actors allows a researcher to develop interpretations of the studied case, which are independent from the opinion of the actively involved actors.

4.2.5 The analysis and the fidelity of data

The principal problem, being one of the greatest risks when it comes to data analysis, is the asphyxia of data (Eisenhardt, 1989), which I have already mentioned above. The excess of information may distance a researcher from his axis of research and, moreover, may drag him or her into secondary questions, meaning the conductor of the research looses the focus on the relevant questions of the study. Evading the problem and risk of the asphyxia of data (Eisenhardt, 1989), I have decided to focus the collection of data and information around the research questions, which I have developed in Chapter I, since the beginning of the research.

Another problem linked to the analysis of data concerns the ability to verify, if the given information and data are based on true facts. Testing and proving the verification of data and information used for this study, I compared the information deriving from numerous different sources in order to determine their verification.

Otherwise, I tried to apply the data analysis model developed by Huberman and Miles (1994), which implies three continuous kinds of activities:

- Reducing the amount of data and information by selecting, simplifying, and transforming secondary and primary sources in order to identify their essential contents;
- Organizing the collected data and information in form of a matrix or of figures in order to enhance the comprehension for the studied phenomena;
- Elaborating and verifying conclusions.

Although I analyzed a great amount of data and information at the beginning of my research, I continued the process of data analysis throughout the evolution of this study.

4.3 The validity and the limits of the study

As interesting and relevant the research topic of a study may sound, it is always very important to examine the validity of the study. Would another researcher, having access to the same data and information, draw the same conclusions? Firsirotu (1984) precised "the explicit and precised character of a case study, as well as the precisely identification of documents used as sources, offers the only gauge of validity to the scientific community".

Of course, there are certain limits concerning this study. First of all, the generalization of the results of this study is limited to German corporations facing similar global market pressures to those, which occurred in the automobile sector during the 1990s. The German corporate context is very specific concerning a great number of characteristics: industry networks, the capital market, the corporate governance structure, and organizational behaviour, etc.

Regarding the fact that this study is mainly based on secondary sources, it is impossible to consider all exact information on the studied corporation. However, it has been a great help to me to discuss vague or controversy data and information with experienced researchers at the Institute for International Economy (*IFW*) at the University of Kiel. In the case of especially controversy issues, I tried to compare and balance the opinions and arguments from different categories of sources, e.g. journalists, management experts, financial analysts, representatives of the company, and politicians.

4.4. Conclusion

In this chapter, I have presented the methodology and research perspective, which seemed to be the most adequate in order to conduct a research on the chosen research topic, and, which corresponded strongly to my own research interest. I have opted to conduct my research in form of a case study based on secondary and some primary sources. The selected research model, the model of the three markets developed by Allaire and Firsirotu (1993; 2004), integrates several research disciplines and may be considered as conceptually solid.

CHAPTER V

THE COMPANY

This chapter is about the company Daimler-Benz, since 1998 the DaimlerChrysler Corporation. In a brief review, I will present the history of Daimler-Benz, one of Germany's oldest corporations, from the early beginnings in Stuttgart in 1890, to the period of intensive diversification in the 1980s. The early history of the company is an important aspect for the analysis of corporate changes. It helps us to understand the original cultural roots of the organization and, furthermore, to be aware of the socio-political situation within which the company has evolved. As I have already explained in the last chapter, this study focuses on the changes and shifts in German corporations. Therefore, in this chapter, I will concentrate exclusively on the German company Daimler-Benz and its history and evolution throughout the 1990s. The American automobile company Chrysler will not be considered until the merger of the DaimlerChrysler in the year 1998.

After having reviewed the past of the Daimler-Benz Corporation until the end of the 1980s, I will examine in depth the period of the 1990s, the chosen research period of this study (see chapter IV). In order to guard a certain chronology of events and to study certain key events in detail, I have decided to subdivide the years between 1990 and 2005 in three distinct periods and sections: from 1990 to 1995, from 1995 to 1998, and from 1998 until 2005.

From 1990 to 1995, I will concentrate on the serious economic slump, which the company suffered already since the late 1980s, and the corporate impact of Daimler-Benz's first listing at the US stock market in New York. In the following period between 1995 and 1998, I will examine, in particular, the corporate changes due to the new CEO Jürgen E. Schrempp and the merger of Mercedes-Benz and

Daimler-Benz. In the last period, covering the events between the beginning of the year 1998 and 2005, I will take a detailed look at the year 1998, the time of the Daimler-Benz transatlantic merger with the American corporation Chrysler, and the following years, in which the merger revealed its major consequences for the corporate structure and governance of the German-American DaimlerChrysler Corporation.

The turning points in the history of the Daimler-Benz - later the DaimlerChrysler - Corporation have a special importance for the study in how far the three markets have had an influence on the evolution of the German market-driven corporation. Although, this chapter provides an overview of the general evolution of the company during the 1990s, it may focus, in particular, on events, which embody important shifts and changes for the DaimlerChrysler Corporation.

In the next chapter, analyzing the evolution of the market for products and services, the market for "talent", and the market for capital, I will attempt to reveal to what extent the three markets have caused the corporate shifts and changes mentioned in this chapter.

5.1 The history of Daimler-Benz: from 1890 to 1989

The Daimler-Benz Aktiengesellschaft (AG) was one of the pioneers of the automobile industry and one of the great corporations of the twentieth century. Its history is closely related and interwoven with the history of Germany, and in particular, with the history of the South West German province of Swabia. During the over 100 years of its existence, the German company underwent many shifts and changes, from a small and humble car manufacturer at the end of the nineteenth century operating in barns and sheds, to a globally working multi-technological group at the end of the 1980s.

5.1.1 The early beginnings in Swabia

The story of the company started at the end of the nineteenth century, when Karl Benz and Gottlieb Daimler combined „solidity, persistence verging on stubbornness, and a tendency to missionary zeal" (Lehbrink/Schlegelmilch, 1997: 7) in order to develop the first car[27].

Karl Benz, a graduate of Karlsruhe's Polytechnic College, founded the "Benz & Co. Rheinische Gasmotoren-Fabrik, Mannheim" together with the businessman Max Kaspar Rose and the commercial agent Friedrich Wilhelm Esslinger in the legal form of an "*offene Handelsgesellschaft* (oHG)", or general partnership, on 1 January 1883. In the year 1899, Benz & Co. changed the company structure from a general partnership (oHG) to a stock corporation, "*Aktiengesellschaft*" (AG) and, by the year 1910, Daimler shares commenced trading on the Stuttgart stock exchange. At that time, Benz was the world's largest automobile manufacturer with sales of 603 automobiles per year. The average income was around 1,800 Deutschmark (DM), and the social welfare provisions for the workers, like a benefit fund, a salaried-staff relief fund, and a foundation, which enabled employees in need of convalescence to be sent away on holiday, were unparalleled in the world.

In 1890, Daimler, a gunsmith, who studied later at the Stuttgart Polytechnic, founded the "Daimler-Motoren-Gesellschaft" (DMG) together with Max Duttenhofer and Wilhelm Lorenz. Beforehand, Daimler had worked for several years together with his friend and partner Wilhelm Maybach, a very gifted automobile designer, on the "*Stahlradwagen*", a vehicle with a tubular steel frame and wire wheels, which was exhibited at the World Exhibition in Paris, in 1889.

[27] Although Karl Benz was granted on January 29, 1886 his German Imperial Patent no. 37435 by the relevant authority in Berlin for his first car and Gottlieb Daimler ran his first four-wheeled „*Reitwagen*" („Riding Carriage") with a "Gas or Petroleum Engine" as patent DRP No. 36423, neither was actually the first to create gasoline-powered vehicles. They were, however, the first to persist long enough to make them viable as transportation.

At first there was competition between Benz & Co. and DMG, as they engineered and styled the earliest *motorwagens* and began to develop markets for their products. These early efforts led to the establishment of an entire industry by the start of World War I. But the war and its aftermath devastated the two companies, as it destroyed the German economy overall. Both companies continued to manufacture their separate automobile and combustion engine brands.

By the early 1920s it became apparent that the only way to survive was a merger, and thus, on June 28, 1926, the stockholders of both companies gave approval to the new company, Daimler-Benz, which led directly to the birth of one of the world's best-known brands: Mercedes-Benz. The head office of the company was created in Berlin but, however, the organization of the central administration is located in Untertürkheim in Stuttgart. The inclusion of the name, Mercedes[28], as the new brand name for the automobiles from all Daimler-Benz factories, honoured the most important model series of DMG automobiles, the Mercedes series, which were designed and built by Wilhelm Maybach.

5.1.2 The years of depression

In the depression years of 1931 and 1932, motoring had become an expensive luxury and the German purchasing power was extremely low due to unemployment and excessive taxation on vehicles, benzene, fuel, and luxury goods. Furthermore, the German state issued emergency decrees and intervened in a partisan way in the competition between road and rail traffic in favour of the railway, the German Reichsbahn. In 1929 the American car giant General Motors had taken over the German company Opel. Other German car manufacturers seek shelter under the protective umbrella of the *Auto Union*. At the end of 1932, Daimler-Benz noted

[28] The name of the Mercedes series derived from a 1900 engine named after the daughter of Emil Jellinek. Jellinek became one of DMG's directors in 1900, ordered a small number of race cars built to his specifications by Maybach, stipulated that the engine must be named *Daimler-Mercedes*, and made the new automobile famous through motor sports.

record losses of 13.4 million DM, around a third of the stock capital. But every cloud has a silver lining. Proximity and increasing familiarity had a therapeutic effect on the image neuroses and separatist leanings of the Daimler and the Benz camps, producing a new "We" feeling.

5.1.3 The company during the Third Reich

The seizure of power by Hitler, a car enthusiast, on 30 January 1933 heralded a boom in car sales, which was fanned by tax breaks, sports promotion, and the prospect of a major road-building program. In 1934, Sindelfingen was working at full capacity on the production of mass-produced bodies for Wanderer and for "Bayerische Motoren Werke" (BMW), which did not operate as independent car factory until 1935.

For the first time since the merger of Daimler and Benz dividends were paid, five per cent on the ordinary shares and four per cent on the preference shares. "*It is thanks to the personal initiative of our Führer and Reichskanzler that this business sector ... has become a defining factor in our overall economy*," rejoiced the annual report at the end of the year 1934 (Lehbrink/Schlegelmilch, 1997: 27).

The treaty of Versaille had long bound and gagged the German aircraft industry. During the regime of the Third Reich, however, the new pre-war period marked the beginning of a new German aircraft industry. Daimler-Benz was part of it. Moreover, with the beginning of the Second World War on September 1, 1939, petrol was only available on coupons, cars were called up for military service, and private sales were banned from 3 September onwards. Therefore, it was not surprising that, in the course of the events, Daimler-Benz finally had to stop its car production, in 1944, and specialized entirely on the production of aircraft, tanks, and submarine engines.

5.1.4 Back to the future

After World War II, Germany was destroyed and poor as never before. A bombing in July 1944 had destroyed about 80 per cent of the buildings and more than 50 per cent of the machinery and equipment at the Sindelfingen Mercedes-Benz plant. All in all, about 20,000 explosive and incendiary bombs hit the factory. On 20 May 1945, the Untertürkheim Mercedes-Benz plant was provisionally reopened and 1,240 employees began rebuilding it. The first chairman of the board of directors after the war, in 1948, was Wilhelm Haspel, who had served already as chairman of the board of directors during the last years of war from 1942 to1945.

A gentle flow of exports and the popularity of new Daimler-Benz post-war vehicle models, such as the multifunctional Unimog, as well as a bridging loan of ten million DM from Deutsche Bank, Dresdner Bank, and Commerzbank matched by finance from the insurance industry, provided a strong basis for the revival of the company. The economic miracle in the 1950s, during which the gross national product doubled and unemployment turned into over-full employment, accelerated the growth and the wealth of the company Daimler-Benz. As early as 28 September 1956, Daimler-Benz inaugurated the Brazilian Daimler-Benz plant at Sao Bernardo do Campo. And by the year 1965, the company was the biggest automobile manufacturer in the European community.

Those who bought Daimler-Benz shares in this decade saw a reliable increase in their wealth. Shares with a nominal value of 100 DM in 1953 had risen to 250 DM in 1954, 940 DM in 1958, and 2,650 DM in 1959. This development was also affected by powerful men such as the industrialists Friedrich Flick and Herbert Quandt, carefully watched by Fritz Könecke and Hermann J. Abs who succeeded Hans Rummel as chairman of the supervisory board between 1955 and 1970. The two major shareholders Flick and Quandt claimed their place on the supervisory board. The Daimler-Benz AG's Annual Shareholder Meeting in 1956 met their demands, granting Flick three seats and the position of the first deputy, and the Quandt brothers two seats and the post of second deputy. Fritz Könecke became chairman of the board of the Daimler-Benz AG in 1953. He requested voluntarily to be relieved of his duties in 1960. His successor, the Austrian honorary planning and construction official and head of the steel group Vereinigte Österreichische Eisen- und Stahlwerke (VÖEST), Walter Hitzinger had an "unfortunate touch in many respects" (Lehbrink/Schlegelmilch, 1997: 341) and loyalty soon crumbled towards him.

In November 1965, Joachim Zahn, a doctor of law and financial expert, who had been a member of the management board since 1958, became chief executive and chairman of the board of management between 1971 and 1979. He found himself faced by the contemporary equivalent of the eternal double-headed challenge: to rationalize and expand capacity.

5.1.5 Striving for worldwide omnipresence

At the beginnings of the seventies, Daimler-Benz had a full range of commercial vehicles from vans to heavy goods vehicles, making it the unchallenged world market leader, plus buses of every size. When Krupp in 1967, and a few years later Rheinstahl AG, decided to sell their commercial vehicles section because of immense losses, Daimler-Benz stepped forward to incorporate the truck factories. Meanwhile, Daimler-Benz became more and more international. During the times of the cold war Daimler-Benz even attained to exhibit their products at a trade affair in Moscow from February to March 1973, the shining status symbols of the class enemy met an enormous response and the PR worldwide was tremendous. The company, which had begun from very humble origins in Swabia, was now on its way to becoming a worldwide commercial empire. In the annual report of 1983 the company states its intention: "to be represented not just in major markets but in every country" (Lehbrink/Schlegelmilch, 1997: 346). Two years later Daimler-Benz was represented in 200 countries, 123 general agents were working on the company's behalf, there were 21 wholly-owned sales companies in the market with a high Mercedes density, companies assembling components in 24 countries, mainly in the Third World, and 25 factories manufacturing independently.

However, the increasing complexity of the group demanded a high degree of diplomatic skills and tactics and imposed many new challenges to the management in Stuttgart. In dealings with the sales and service organizations in Europe, which Mercedes liked to see under its own direction, the way in which Mercedes-Benz of North America (MBNA) was set up in 1965 served as a model. The German parent company adopted a very cautious approach in converting the branches in France, the UK, Switzerland, Belgium, the Netherlands, and Austria into Daimler subsidiaries.

By 1973 for the first time foreign sales outstripped those on the domestic market and the Daimler-Benz AG started issuing shares to employees. The tremors following the oil shocks of 1973 and 1979 did not touch Untertürkheim and its satellites in Argentina, Brazil, Canada, the USA, or South Africa. On the contrary, in 1973, the group produced 331,682 cars and 215, 935 commercial vehicles, and sales totalled 13,799 billion DM (≈ 7,040 billion Euro). The figures for 1974 were comparable: 340,006 cars and 205,344 commercial vehicles, and sales of 15,283 billion DM (≈ 7,797 Euro). The dividend in this year reached 15 per cent and the capital stock increased from 951,3 million (≈ 485 million Euro) to 1189,1 million DM (≈ 606 million Euro). The shareholder reactions at the annual meeting ranged from praise to astonishment.

There were many reasons for the fact that the company stayed unaffected by the pressure waves of the two cleverly planned oil shocks. One of these was the oft-cited creed that the company's growth was only moderate but constant and that it was not prey of short-term highs and lows of the economy. Besides, long delivery times in the seventies were not only accepted by the customers, they turned into a virtue as anticipation often increases the appetite and makes the final enjoyment all the more intense. Moreover, the desire for Mercedes was fanned by innovations such as the elegant S-class sedan from September 1972. The launch of the 240 D, in August 1973, was tailor-made for the miserable period: there were no restrictions at all on the availability of diesel oil and it was cheap. The production of the 240 D augmented within one year from 116,000 to 147,000.

Besides, at the time the demand from the oil exporting countries for Daimler-Benz noble products experienced exponential growth. Between 1974 and 1977, sales in Iraq and Saudi Arabia were eleven times higher than in 1973. The diesel plant in Tabriz, manufacturing engines under license since 1970 in Iran, proved to be the ideal gateway to the new markets in the Far East. Even after the end of the Shah's reign and Ayatollah Khomeini's seizure of power the business relations between Stuttgart and Teheran maintained prosperous. Otherwise, bad news came from Düsseldorf and Bremen, where short-time work was introduced in the sensitive field of van production and the bus market stagnated because of fierce competition. However, these negative aspects could be balanced out by the lively demand from the Middle East.

In its dealings with the staff Daimler-Benz used the family principles even in difficult times, no fewer than 149,742 employees earned their living "at Daimler", "at Benz" or at one of its suppliers near or far. The bible of modern man management was the brochure "Principles of Management and Cooperation" from 1979, which subscribes to the principle of vertical cooperation. Dismissals are unusual at the time, moreover, a certain willingness to be mobile within the corporation was expected of the members of the extended "Mercedes family", for example from a site with over-full employment to an area where there was an urgent need for staff. So even 50 years after the death of the founding father Karl Benz, it was still a privilege for the employees to work "at Benz".

However, earthquakes can also emerge from the inside of the Daimler-Benz microcosm. On 28 November 1974, the Quandt Group decided to sell its 14 per cent holding in the company, nominally 166,5 million DM (≈ 85 million Euro) of the firm's 1189,1 million DM (≈ 607 million Euro) of capital, for around a billion DM (≈ half a billion Euro) to a foreign investor. A week later, the identity of the investor, who asserted to claim his rights through the Dresdner Bank, was revealed: the Emirate of Kuwait. The situation calmed, when the Emirate of Kuwait declared that it had no intention to influence the company's policy or to claim a seat on the supervisory board. Shortly after this spectacular episode, Friedrich Karl Flick[29], a German-Austrian industrialist and billionaire, was proposing to sell 39 per cent of his holding to the Shah of Iran. But Franz Heinrich Ulrich, who was both chairman of the board of management at Deutsche Bank and Hermann J. Abs' s successor as chairman of the supervisory board at Daimler-Benz since 1970, intervened in this affair. He persuaded Flick to retain ten per cent and to transfer the balance temporarily for two billion DM to Deutsche Bank. Then the bank set immediately about selling Flick's shares, using the water can principle[30] in order to prevent a future concentration of shares, and thus, the chances of external influence being exerted or even of absolute majorities.

---

[29] Friedrich Karl Flick (1927-2006) was the youngest son of Friedrich Flick and Marie Schuss. After his studies, he worked in his father's company. In 1972, he inherited the family business, which had made massive use of concentration camp laborers. The Flick family has a Nazi legacy and has always refused to pay compensation to wartime victims. As the sole owner of the Friedrich Flick Industial Holding, Flick had interests in major companies including Daimler-Benz, WR Grace, Gerling Insurance, Buderus, Dynamit Nobel, Feldmühle and others. In 1975 he sold his part of Daimler-Benz to the Deutsche Bank for more than $ 1 billion. Major tax liabilities were avoided through "cultivation of the political landscape", - a process that turned into the Flick Affair in 1983 as about $25 million had been paid to German political parties in return for tax cuts and favourable rulings. Although Chancellor Helmut Kohl benefited from the dealings, he claimed he had "no recollections", while others resigned from their posts. In 1985 Flick sold off the remainder of his companies. When Deutsche Bank announced that it had bought his holdings for about $3 billion German marks, Flick retired in Austria, where he became a naturalised citizen. At the time of his death, he was the wealthiest person living in Austria.

[30] The "water can principle" in this sense means that the shares were sold to a great number of disperse shareholders and not to one or two shareholders, which would have meant the creation of new some new major shareholders who could influence the strategic orientation of the company.

After the intervention of the Deutsche Bank, Daimler-Benz capital was for the time being well spread: Deutsche Bank 28 per cent, Mercedes Automobil-Holding AG (MAH) 26 per cent, Kuwait 14 per cent, Flick 10 per cent (which he sold to Deutsche Bank in 1985), Bosch and Siemens owned two per cent each. Subsequently, the influence of the Quandt family and Flick as major shareholders of the company ended and the two disappeared from the supervisory board.

Germany's new codetermination law of May 1976 was already making the news and in an advance show of obedience the number of shareholders' representatives was cut from twelve to ten. Ten workers' representatives, making in total the number of supervisory board members twenty as planned for large companies by the German government, balanced the ten remaining shareholders' representatives out.

In the light of increased production figures and multiplying range of vehicle types, the questions of space remained a permanent issue for the board of management and the supervisory board. Finally, in 1977 the supervisory board decided to acquire the former Borgward manufacturing plant in Bremen. The question if the air of rugged solidarity, which was basically included in the purchase price for the Swabian products from Stuttgart, could simply be transferred northwards, remained. The acquisition of the Bremen production site announced also a fundamental organizational restructuring: cars were to be built in Sindelfingen and Bremen, trucks in Wörth and Düsseldorf, buses in Mannheim, and the Unimog and its agricultural derivative, the Mercedes-Benz-tractor, in Gaggenau.

5.1.6 New models and markets

By the end of the seventies the increase of oil price brought along the introduction of smaller, less polluting, and economical cars, such as the W 201 compact class. In 1979, Werner Breitschwerdt, who had replaced Hans Scherenberg as R&D boss, sanctioned the compact design by presenting a model of the Baby Benz (the wide ranging 190 fleet from the 190 Diesel to the 190 E 2.3 – 16), thus appealing to new market segments but maintaining the old charisma. By 1988, over a million (1,125,928) W 201 models had already been sold, even to people who had never owned a Mercedes before, and around a third of them (413,905) were diesel powered. In January 1984 journalists from all over the world voted the 190 E World Car of the Year, and at the annual shareholder meeting in July the same year, Werner Breitschwerdt, chairman of the board of management since December 1983, expressed his satisfaction for the fact that Daimler-Benz was now able to offer a product in the new compact class, too.

Breitschwerdt's predecessor Gerhard Prinz, who had been active between January 1980 and October 1983 (when he died because of a heart failure), earned the credit for the new Mercedes market strength, now being represented within the trident of S-class, mid-range, and compact class. Prinz was responsible for two further important projects: the modification of the Bremen site for car production and the advancement of powerful outposts in the North American truck market. After several more or less successful attempts to enter the North American truck market, Prinz knew that he had to reach at the heart of this different world, where truckers had a romantic notion about their intimidating sized vehicles. Therefore, the Daimler-Benz AG decided to acquire two native manufacturers in the USA: the Euclid Inc. in Cleveland/Ohio in 1977, and the Freightliner Corporation four years later in 1981.

On the one hand, the Euclid Inc. turned out to be loss-making and was sold again as soon as 1984. On the other hand, the Freightliner Corporation turned out to be a success and Daimler-Benz could meet its target of access to the US market. The newly established Daimler-Benz of North America Holding Company Inc. formed the umbrella for the two subsidiaries Freightliner and Mercedes-Benz Truck Co. Inc., which covered jointly the trucks business, and for Mercedes-Benz of North-America, which handled the car side.

5.1.7 Diversification: Reuter's attempt to build an integrated technology company

In the mid-eighties, after reconstruction and takeovers and expansion of Mercedes provinces throughout the world, big was best, in line with the watchword of German classicism that isolation is reprehensible. The new acquisitions should form a colourful patchwork in their totality, be lucrative individually, and promise a generous living for the future.

Between February and April 1985, Daimler-Benz bought the Motoren- und Turbinen-Union (MTU), building aeroengines and large engines, the holding of (MAN) as well as the majority of the stock of Dornier-Werke, well known for aeronautical engineering, space technology, and medical technology. By February 1986, Daimler-Benz had also accumulated 56 per cent of the capital of the electrical giant at a cost of 1,6 billion DM. The expansion of the once purebred carmaker into an integrated technology company with a new organizational structure, which had been forcefully promoted in particular by Edzard Reuter, Breitschwerdt's successor since September 1987, was crystallized by 1989.

In May 1989, Deutsche Aerospace AG (DASA) was established by the merger of Dornier GmbH with Motoren- und Turbinen-Union (MTU) and two sectors of AEG AG, as a 100 per cent subsidiary of the Daimler-Benz Group. The chairman of the board of management was Jürgen E. Schrempp. In a corporate restructuring of the Daimler-Benz AG in June 1989, the Mercedes-Benz AG was established with Prof. Werner Niefer becoming chairman of the board of management. Mercedes-Benz AG, AEG AG and Deutsche Aerospace AG now operated as independent enterprises under the roof of the Daimler-Benz AG, the managing and holding company. In the same year in November, a shareholder meeting and the supervisory board of Messerschmitt-Bölkow-Blohm AG (MBB) voted in favour of majority ownership by Daimler-Benz, making MBB a subsidiary of "Deutsche Aerospace AG." By December 8, the Deutsche Airbus GmbH was established. It encompassed the former

MBB group enterprise Transport- und Verkehrsflugzeuge (cargo and passenger aircraft) and the former "Deutsche Airbus GmbH" (Munich).

At the end of the intensive period of restructuring, in 1989, the Daimler-Benz AG, which formed the umbrella and executive holding company in which the management functions and R&D were centralized, rested on three columns – of extremely different solidity, as it later turned out, the columns were namely: DASA, AEG, and the Mercedes-Benz AG.

5.2 Corporate shifts and changes during the 1990s

The research period of this study focuses on the years between 1990 and 2005, a period of major shifts and changes in the organization of the Daimler-Benz AG, which became later, from 1998 onwards, the Hybrid German-American DaimlerChrysler Corporation. I have chosen to split the research period into three distinct sub periods in order to examine certain important events, changes, and tendencies in detail. The three sub-periods range: from 1990 to 1995, from 1995 to 1998, and from 1998 to 2005.

5.2.1 The period between 1990 and 1995

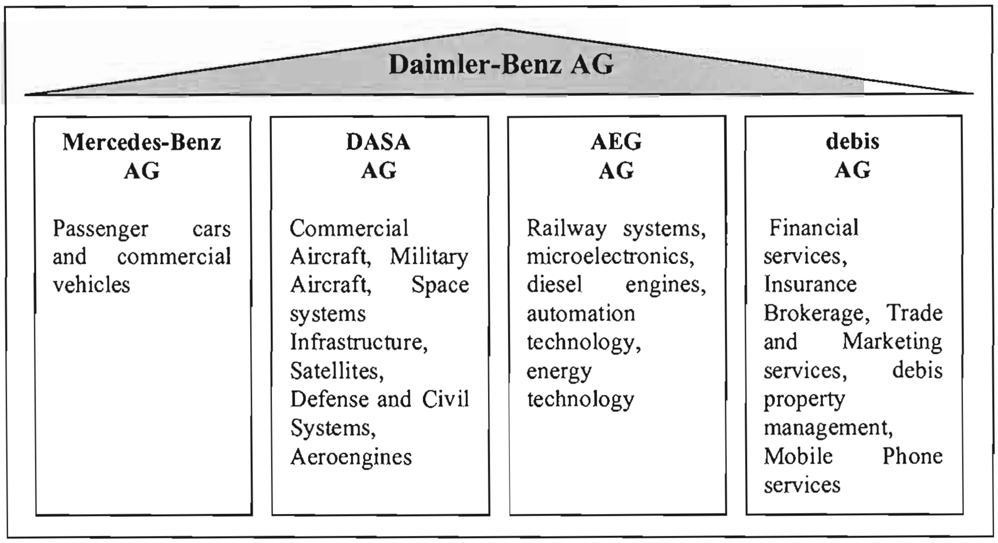
5.2.1.1 debis: Reuter's fourth column

The beginning of the 1990s was still part of Reuter's era of corporate strategic expansion in multiple technology sectors, which had begun already at the end of the 1980s. In 1989, the Daimler-Benz AG, including AEG, employed 368,200 employees and reached an annual turnover of 76,392 million DM (≈ 38,977 million Euro). In 1990, the annual turnover increased to 85,500 million DM (≈ 43,622 million Euro).

In July 1990, the same month the new Daimler-Benz corporate head office in

Möhringen, Stuttgart, was inaugurated, Edzard Reuter founded the company's fourth corporate column: The "Daimler-Benz Inter Services" (debis). The fourth corporate unit of the Daimler-Benz AG comprised the business units IT-Services, Financial Services, Insurance Brokerage, Trade and Marketing Services. In September the same year, Daimler-Benz shares were issued on the Tokyo and London stock exchanges.

Figure 5.1 The organizational structure of the Daimler-Benz AG in 1990



Source: Daimler-Benz (1992: 2).

The Daimler-Benz's strategy to grow and expand continued in 1992, when DASA CEO Jürgen E. Schrempp and his right-hand, the former economics professor Manfred Bischoff. initiated the acquisition of the legendary Dutch aircraft company Fokker[31]. DASA, which was already Germany's biggest aerospace and defence manufacturer, grew in size.

However, at the end of 1992, crisis heralded with the changing of the economic climate especially due to changes linked to the German reunification. The

[31] Fokker was a Dutch airplane company with a long tradition. It was the maker of the fearsome German "Red Baron" in World War I and the plane in which Amelia Earhart soloed the Atlantic Ocean.

cost of reunification had exceeded expectations, taxes had risen accordingly, and unemployment was high. Germany had become one of the most expensive industrial locations in the world and there was a serious fall-off demand.

5.2.1.2 Problems in Stuttgart

In 1993, almost 40 per cent of Daimler-Benz's revenues derived from: DASA (aircraft, space, and defence), Daimler-Benz's transportation unit (e.g. rail systems), AEG (technical equipment, engines, turbines, rail systems, cables, microelectronics), and debis (IT-services, financial services, insurance brokerage, trade and marketing services).

Nevertheless, the Mercedes-Benz AG, producing passenger cars and commercial vehicles, continued to provide the bulk of the group's revenues and was the primary source of the company's fame. Mercedes-Benz had become one of the best-known brand names in the world, and the company's products had a long-standing and well-earned reputation for quality engineering, reliability, refinement, and luxury.

The heir to the throne of the Mercedes-Benz AG, which was considered as the icing on the cake of the other activities of the diversified Daimler-Benz Group, was Helmut Werner, hitherto Werner Niefer's deputy chairman. Helmut Werner, "a lively and highly qualified manager" (Lehbrink/Schlegelmilch, 1997: 355), came from the outside. He had been chairman of the board at the Hanover-based tire manufacturer Continental when he came to the attention of the ten heads of the Daimler-Benz supervisory board and chairman Alfred Herrhausen (Deutsche Bank) who persuaded him to move to Stuttgart in 1987.

But in contrast with its remarkable history, by late 1993 Daimler-Benz faced significant challenges and an economic crisis. While its automobile products continued to live up to their vaunted reputation, a variety of economic and political changes threatened the company's viability as an independent car manufacturer. Recent diversification moves from the era Reuter had turned sour. Daimler-Benz management was trying to address these problems, but was struggled by a system of corporate governance that was better suited for steering corporate growth and for dividing its spoils among stakeholders, than for confronting strategic decisions with painful consequences for some stakeholders.

The serious challenges that revealed themselves during the year 1993 for the Daimler-Benz AG were unprecedented, even in consideration of the company's rather long and dynamic history.

5.2.1.3 The first listing in New York

On October 5, 1993, Daimler-Benz stock commenced trading on the New York Stock Exchange (NYSE). It was designed to be an American Depositary Receipt (ADR), which is the most popular cross-border share-trading facility used by non-US companies. The ADR itself is a separate certificate issued by US depositary banks as a claim against home-market shares deposited with a local custodial bank.

In fact, no German company had previously been listed on a US national exchange, in large part due to the various costs and consequences of meeting the US Securities Exchange Commission's (SEC) financial reporting and disclosure requirements. Daimler-Benz became the first German company to gain a full listing on the NYSE. The full listing allows the stock to be purchased by institutional investors, insurance companies, and pension funds as well as by individual investors.

The price Daimler-Benz paid for the full listing, however, was to produce two sets of accounts, one German and one American. For 1993 this produced a discrepancy of 2.5 billion DM (1.28 billion Euro) between net profit US-style and net-profit German style, which created concern among shareholders (Covill, 1995:

43). Besides, subsequent events at Daimler revealed how substantial the consequences were of the US listing.

5.2.1.4 Changes in financial reporting

On September 17, 1993, in preparation for the coming NYSE listing, the Daimler-Benz AG publicly announced half-yearly earnings that had been calculated under the United States Generally Accepted Accounting Principles (US GAAP). The US GAAP is a widely accepted set of rules, conventions, standards, and procedures for reporting financial information as established by the Financial Accounting Standards Board, an independent financial agency in the USA.

When Daimler-Benz listed their American Depositary Receipts (ADRs) in New York, it was the first time that any German public company had done so. The disclosure had widespread and long-lasting effects on Daimler-Benz and other German public companies (Ball, 2004; Foudy Jr., 2001). The company's release of earnings calculated under US GAAP was required under Rule 20-F of the Securities Exchange Commission Act of 1934, which regulates US securities markets.

Rule 20-F reporting requirements apply to all firms issuing or listing securities on national markets in the United States. The rule requires a reconciliation of the company's home-country financials to those that would be reported under US GAAP. Daimler reported the major effects of differences between US and German accounting rules on Consolidated Net Income and Stockholders' Equity, for the first time in 1993.

Further implementations of the US GAAP financial reporting and the listing on the NYSE for German corporations and the German financial system in general, will be discussed in the analysis of the three markets in the next chapter. It is important already to note at this point that the discrepancy between the German accounting system based on the "*Handelsgesetzbuch*" (HGB) (= German Commercial Code) and the US Generally Accepted Accounting Principles is an indicator for the two distinct corporate governance systems prevailing in the US and German economy.

5.2.1.5 The first loss announcement

The year 1993 was not only the year of major changes for Daimler-Benz in the corporate financial reporting, but also the year of the company's first ever-reported loss. When calculated according to US GAAP, the loss for the first half, which ended June 30, 1993, was 949 million DM (≈ 484 million Euro). This surprising outcome was due largely to a 16 per cent fall in sales relative to the comparable period in the previous year, an unusual fall for such a stable automobile manufacturing company (Daimler-Benz, 1994).

The reported loss was all the more surprising because the company previously had reported a profit, 168 million DM (≈ 86 million Euro), for precisely the same half-year period. This earlier profit figure had been computed under German accounting standards, the "*Handelgesetzbuch*" (HGB), and had been reviewed and certified by the company's auditors (Ball, 2004).

At the time, many international observers were left shaking their heads about how the announced profit of a major international corporation could, when merely recalculated under US GAAP, turn into such a substantial loss.

Daimler-Benz later announced a US GAAP loss of 1839 million DM (≈ 938 million Euro) for the full year 1993, compared with a German-standard profit of 615 million DM (≈ 314 million Euro). The enormous difference between the numbers, approximately 2.5 billion DM (≈ 1.26 billion Euro), quickly attracted the attention of analysts, regulators, and accounting standard-setters worldwide. It drew considerable attention to the radically different German and US models of financial reporting, disclosure, and corporate governance generally (Daimler Benz, 1994; 1995).

5.2.1.6 Plant closings, payroll reductions and business divestitures

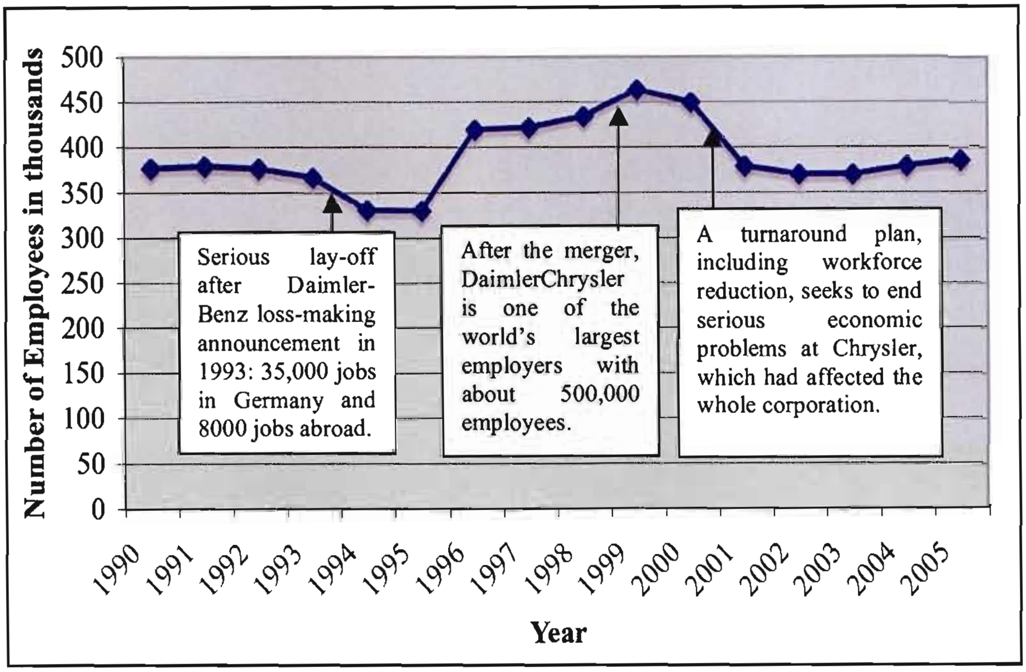
On September 17, 1993, the very day that Daimler-Benz released the US GAAP reports, the company announced it would abandon investments that were not central to its core competence, focus its product line, close factories in Germany, and slash its payroll. The immediately announced payroll cuts were: 35,000 jobs in Germany by the end of 1994, plus another 8000 jobs in other countries, and included some involuntary terminations (Daimler-Benz, 1994; 1995).

The company thereby revoked fifty years of post-war labour practices. Between the beginning of 1993 and the end of 1996, the number of Daimler-Benz employees in Germany was reduced from 302,464 to 222,821, during which time the total assets of the group increased by over 30 per cent (Daimler-Benz, 1998: 88).

9000 jobs were cut at DASA and three major defence plants were closed in Germany. AEG, whose name was synonymous with Germany's industrial rise in the late nineteenth century, was dismantled in the same year. In fact, managers were not spared: 50 per cent of the jobs at the company's headquarters in Stuttgart-Möhringen, which the new CEO Jürgen E. Schrempp used to call the "bullshit castle", were eliminated by the year 1996 (Vlasic/Stertz, 2001: 129).

The following figure 5.2 illustrates the development of employment at Daimler-Benz, later DaimlerChrysler, in the period of 1990 and 2005. All in all, the number of employees remained almost the same before and after the merger of DaimlerChrysler, which is the result from serious employee reductions at Chrysler and later in 2005 also partially at Daimler.

Figure 5.2 DaimlerChrysler: Number of employees, 1990-2005



Sources: Adapted from Daimler-Benz (1991; 1992; 1993; 1994; 1995; 1996; 1997; 1998a) and DaimlerChrysler (1999; 2000; 2001; 2002; 2003; 2004; 2005; 2006).

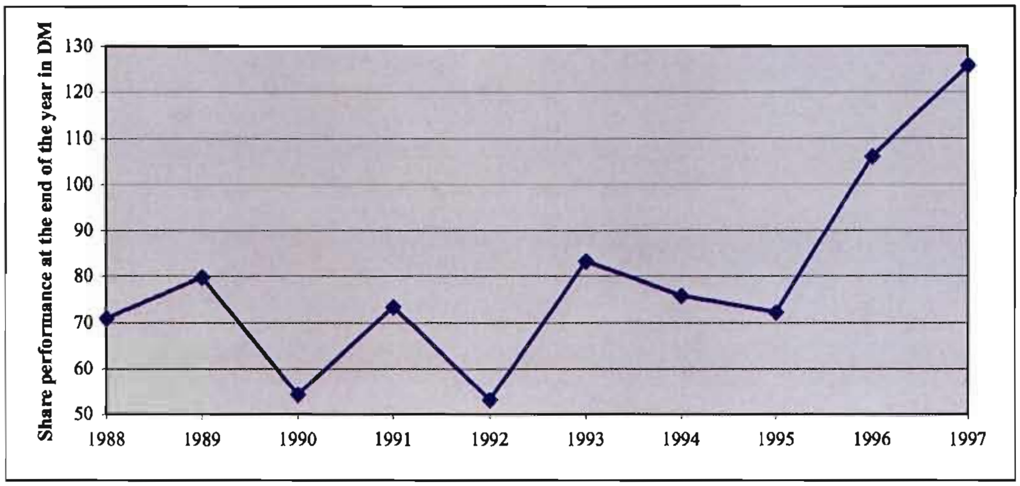
5.2.2 The period between 1995 and 1998

5.2.2.2 Schrempp' s "Unternehmenskonzept"

At the latest after the record losses of 5.7 billion DM (≈ 2.91 billion Euro) in 1995, it was clear that an integrated system à la Edzard Reuter was no longer appropriate. His successor Jürgen E. Schrempp, who came in office in May 1995, prescribed a drastic slimming course for the Daimler-Benz AG. In three years of "*Unternehmenskonzept*" (enterprise concept), Daimler streamlined its operations, reinvigorated its product line, and disengaged from businesses that were taxing its core businesses by losing money and distracting management. It dismantled AEG, its century-old and much revered electronics business. It spun off its Energy Systems Division and Automation Division, requiring a 1600 million DM (≈ 816.33 million

Euro) charge against 1995 earnings, with an additional 300 million DM (≈ 153.06 million Euro) in 1996. It discontinued financial support for Fokker, which then filed for bankruptcy under Netherlands law, causing a 2158 million DM (≈ 1101.02 million Euro) loss to be recorded against Daimler's 1996 earnings. Between 2001 and 2002, it sold its stake in the debis Systemhaus information-technology joint venture to Deutsche Telekom, and part of its US commercial-financing portfolio to GE Capital. In total, eleven of the company's thirty-five businesses were eliminated (Vlasic/Stertz, 2001: 129).

Figure 5.3 Daimler-Benz share performance between 1988 and 1997



Source: Adapted from Daimler-Benz (1998b).

Figure 5.4 showing the share performance of Daimler-Benz between 1988 and 1997 reflects Daimler's economic problems at the beginning of the 1990s, with a serious crisis in 1993, and the implementation of Schrempp's successful restructuring strategy with a focus on the core automobile business between 1995 and 1997.

The initial reaction of the German public in regard to Schrempp's radical restructuring strategy was swift and furious. Protesters carried black coffins in the streets of Frankfurt, and the tabloids referred to management board chairman

Schrempp as "Neutron Jürgen," a reference to General Electric's ruthless CEO "Neutron Jack" Welch (Vlasic/Stertz, 2001: 129). Among the company's most savage initial critics were managers at other large German industrial companies, including Bayer AG and Siemens AG. German accounting is an integral part of the stakeholder system of corporate governance.

For decades the reported earnings of German corporations had directly determined a smoothly rising stream of employee and manager bonuses, dividends, and taxes, like a steadily growing pie in which all parties shared. In many ways, the earnings of a company like Daimler-Benz were a microcosm of the post-war German economy, which had experienced steadily growing wealth that was distributed among political stakeholders under a pervasive social contract.

Daimler's abrupt departure from traditional German accounting practices therefore challenged a corporate and social governance system that seemingly had served all parties well, and of which Germans were understandably proud of. This pride manifested itself in a type of competitiveness with (and suspicion of) the US system, and Daimler management was seen as breaking ranks in that competition.

A related complaint was that, in agreeing to comply with the Security Exchange Commission's (SEC) insistence on US Generally Accepted Accounting Principles (GAAP) information, Daimler-Benz had undermined Germany's prospects for negotiating mutual recognition of accounting standards with US authorities. Mutual recognition was strongly advocated by the German authorities, for example Biener (1994). The concern was valid: Germany subsequently legislated to allow consolidated financial reporting under US GAAP, but the United States has never recognized HGB rules.

5.2.2.2 The merger between Mercedes-Benz and Daimler-Benz

Schrempp's reaction towards the storm of criticism that hit him in the German public was for many people in Germany rather surprising. He did not only cope with the critics, he absorbed them and continued his mission tightening costs, taking smarter decisions, and taking enlightened risks on a global scale. The Daimler-Benz leader envisioned himself as a leader of fundamental change in the German industry, which was weakened by padded payrolls, inefficient production, and an overly developed sense of self-satisfaction. Daimler was to set a new tone for the German corporate agenda. "You cannot change the world," he would say, "if you cannot change the major issues at your front door.", or even more drastic, "Sometimes you have to walk over dead people" (the German proverb "*Über Leichen gehen*") (Vlasic/Stertz, 2001: 130). Jürgen E. Schrempp, who was tall, stern-jawed, and who possessed a kind of magnetic presence and strong rhetoric skills, became one of the most recognized and despised businessman in Europe. To one of his closest aides he said: "I am independent. If they call me Rambo or whatever, it is not important to me. I have one task. That is to solve this company, and bring this company in the peer group of the most profitable companies in our industries." (Vlasic/Stertz, 2001: 130).

Schrempp's first radical changes in the company were the sale of loss making business units, he chopped off eleven of Daimler's thirty-five business units, and the setting of new profitability goals, he announced that every business unit achieving less than 12 per cent return of capital employed would be jettisoned. Subsequently, he reduced the number of managers and administrative staff at Daimler-Benz headquarters in Möhringen, which he had titled "bull shit castle". Schrempp's next aim was to concentrate his power in the company by merging the Mercedes-Benz AG with the holding company Daimler-Benz AG. From his office in the Daimler headquarters in Möhringen, he could see that the engine of growth, the heart of the company, was in the massive office and industrial complex across the Neckar River in Untertürckheim, the home of the Mercedes-Benz AG.

However, Mercedes was since the year 1992 in the hands of its CEO Helmut Werner. Schrempp chaired Daimler's board of management, a body whose members were the chief executives of the subsidiary businesses: Mercedes, DASA, AEG, and debis. Every strategic decision involving Mercedes went to the in-house management, chaired by Helmut Werner, first. Countless corporate functions were thus duplicated in Daimler and Mercedes.

A conflict of power was on its way, when Schrempp announced "It doesn't make sense to have Mercedes, the subsidiary company, having seventy per cent of the revenue and almost one hundred per cent of the profits of the entire concern. On top of that, when Werner makes a decision with his board he has to come to my board and review the whole bloody story again with people who are not as qualified to judge the motor business as the Mercedes guys! It is crazy. This cannot work." (Vlasic/Stertz, 2001: 134).

Both Schrempp and Werner had competed to become Daimler's CEO and when Schrempp won, Werner took over the Mercedes chair in Untertürckheim. Werner was not willing to hand Mercedes over to Schrempp, especially not after his own Mercedes revolution had started to bear fruits. In the first half of 1996, Mercedes sold 315,000 cars, a 7 per cent increase from the previous year. Revenue rose 12 per cent to 15 billion $US. Mercedes' newest cars, the jaunty SLK roadster, the bubble-eyed E-class sedan, and the trendy C-class station wagon, were very successful both, in the eyes of consumers and the automotive media. Although Werner was against a mega merger with the American automobile manufacturer Chrysler, he pushed the company into China and the Brazilian market.

While Schrempp prepared the merger of Daimler and Mercedes with his "kitchen cabinet"[32], Helmut Werner pumped up his people at Mercedes as the true

[32] Schrempp's closet circle of advisors was called internally at Daimler-Benz the "kitchen cabinet". It consisted of: Eckard Cordes, a mergers and acquisition expert who worked at AEG before moving to

inheritors of the legacy of Gottlieb Daimler and Karl Benz: "We are an automobile company. [...] That is our future." (Vlasic/Stertz, 2001: 137).

In the spring of 1996 Schrempp started a series of off-site meetings that moved from Brussels to Paris to Munich to New York. On these occasions Schrempp tried to find an answer to the question how the company should be restructured and consolidated by discussing the present situation and future outlook of Daimler-Benz with investment bankers, business professors, and corporate leaders such as Jack Welch and Lawrence Bossidy of AlliedSignal. The outcome from these meetings was a set of eight alternatives for the corporate reorganization of the Daimler-Benz AG. As a matter of fact, Schrempp' s favourite alternative merged Mercedes into Daimler.

However, Schrempp's power over his board of management was not like the authority held by an American CEO over his corporation. Moreover, Schrempp could be voted down in the eight-member management board, where he would oppose Helmut Werner. On August 31, 1996, at a special strategic two-day meeting Schrempp presented his eight concepts to the board of management. The group – Schrempp, Werner, Bischoff, debis chairman Klaus Mangold, Chief Financial Officer (CFO) Manfred Gentz, and three others - debated the various options. Schrempp always came back to Model Number Six, which merged Mercedes into Daimler and abolished the position of the Mercedes CEO. "It's like a dog," Schrempp said, "Daimler must be the dog, not the tail. Mercedes must be the tail." (Vlasic/Stertz, 2001: 141). Even Werner could agree to this logic. Nevertheless, he fought back "I will fight to the last day for the integrity of Mercedes! [...] I will make sure that this will not become a part of a conglomerate where we cannot make sure that the brand Mercedes will keep the great value it has!" (Vlasic/Stertz, 2001: 144).

the headquarters as head of corporate development, Rüdiger Grube, who caught Schrempp's eye when he plotted corporate strategy at DASA, and Claudia Deiniger, a former secretary at DASA who became his personal assistant.

The conflict prevailed between Schrempp and Werner. In order to decide the next meeting in his favour, Schrempp started lobbying Werner's three top deputies, car chief Jürgen Hubbert, sales chief Dieter Zetsche, and heavy truck head Kurt Lauck, promising them that under his reorganization the three deputies would all be given raises and elevated posts on the Daimler management board. In the next meeting, seven board members voted in favour of merging Mercedes into Daimler, and one against. Werner was the only dissenting voice.

On January 16, 1997, Werner, who had also been neglected by the Daimler supervisory board chairman Hilmar Kopper to serve as CFO of Daimler-Benz – Kopper wanted to keep Manfred Gentz - resigned as CEO of Mercedes. Six days later in a final meeting the supervisory board confirmed the decision of the board of management to merge Mercedes into Daimler with Jürgen E. Schrempp as CEO.

5.2.3 The situation in 1998 and beyond

5.2.3.1 The merger of Daimler-Benz and Chrysler

In 1997, Daimler-Benz net sales were over \$68 billion (≈ 49.26 billion Euro) and its market capitalization was \$36 billion (≈ 26.08 billion Euro) on December 31, 1997. The company had over 550,000 shareholders with its shares distributed across 14 stock exchanges around the world, including the New York Stock Exchange (NYSE) as ADRs since 1993. In 1997, approximately 33 per cent of the Daimler-Benz revenues derived from sales Germany, 25 per cent from sales in other member states of the European Union and 21 per cent from sales in the USA and Canada. The automotive segment contributed to approximately 71 per cent of the company's revenues in 1997 (Daimler-Benz, 1998).

However, Schrempp knew that the company's future was not yet assured. Seven months after the board of management had decided to merge Mercedes into

Daimler, the board of management team met again to discuss the corporate strategy for the future of the company. Rüdiger Grube presented the facts:

> "In the past, Daimler-Benz has had a growth rate every year averaging seven per cent. If you grow seven per cent every year, you double your revenues in ten years. In 1976, Daimler-Benz revenue was 26 billion Deutsche Mark [≈ 13.27 billion Euro]. Ten years later, in 1985, it was 52 billion Deutsche Mark [≈ 26.53 billion Euro]. In 1995, it was one 125 billion Deutsche Mark [≈ 63.78 billion Euro]. We have to create a way that we can double our revenues in the next ten years from 125 billion to 250 billion [≈ 127.55 billion Euro]." (Vlasic/Stertz, 2001: 171).

It was obvious to the members of the board that neither the financial services unit debis, nor the aerospace division DASA could generate such growth. The motor of growth remained the automobile sector. However, Mercedes-Benz operated in the premium sector of the automobile market, which made up for only twelve per cent of the total market.

Henceforth, it was obvious that the company could not double its revenues in ten years as a premium brand, only a significant expansion in the mass-market could. Besides, although Mercedes commenced to enter the market for small cars with the micro-compact car, Smart, since 1994 produced in Hambach (France), and the A-class, Mercedes had no suitable car to enter the markets in emerging countries, such as China, India, or South America. The A-class, for example, was too expensive with too much high technology for the emerging markets.

Schrempp told only a very small team of people whom he trusted to study mass-market manufacturers, e.g. Toyota, Honda, General Motors, Ford, and Chrysler, for a potential merger or partnership. Any potential partner had to provide not just growth, but profitable growth. The products and the geographical markets should not overlap with those of Mercedes-Benz. And under no circumstances would Daimler-Benz accept to become the junior member of any partnership.

It soon became clear that a partnership with Ford and General Motors (GM) would be difficult in regard to their enormous size. Daimler-Benz was not willing to end up as a subsidiary of Ford, like Jaguar. Furthermore, with GM the state of the company did not seem to be very attractive and there were obvious overlaps between Mercedes and Opel. The research team and Schrempp agreed that the American automobile manufacturer Chrysler would be the best partner for their company.

Chrysler and its subsidiaries were based in Auburn Hills, Michigan, and operated in two principal industry segments: automotive operations of cars, trucks and related parts, and financial services. Chrysler, which was the number three US automobile company, dated from Walter Chrysler's first model in 1924. It had $61 billion in net sales in 1997, and its market capitalization was $23 billion on December 31, 1997. 135,000 shareholders held the shares worldwide and its shares were traded worldwide, including Frankfurt, Berlin, and Munich in Germany (St. Jean, 2004; Rädler, 2003).

In 1997, trucks including minivans accounted for about 65 per cent of Chrysler's vehicle sales in the USA, while cars made up only 35 per cent. Chrysler's brands included Jeep, one of the best-known automobile brands in the world and others like Chrysler, Dodge, and Plymouth. Chrysler's larger cars, such as the Stratus, were priced similar to Mercedes-Benz's lower mid-size car, the so-called C-class. At the end of the range Chrysler offered the Dodge/Plymouth Neon. Its car product line included mass-market cars such as the Neon to niche vehicles such as the Dodge Viper and the Plymouth Prowler.

After several serious turnarounds, Chrysler achieved new strength, using a platform strategy and lean manufacturing saving costs and introducing a new rather spectacular design. However, Chrysler CEO Robert J. Eaton knew that Chrysler could not survive on its own. In order to be successful in the global automobile market, the American company needed to have a strong foot in the European market and in the emerging markets in Asia and South America (Airey et al., 2003; Nolan, 2003).

On May 7, 1998, Daimler Benz and Chrysler announced their merger agreement, a share-for-share exchange realized with a new global registered share facility, which had a new name: DaimlerChrysler (DCX). Under the terms of the proposal, the exchange ratio was computed at 0.6325 new DCX shares per Chrysler share and even swap of DCX and Daimler Benz ordinary shares (or, 1.005 DCX per Daimler Benz share if over 90% were tendered). The transaction closed and the first really global share[33] was launched on November 18, 1998. Daimler Benz and Chrysler management agreed to design and implement a global share as the only equity vehicle to be issued to all DaimlerChrysler stockholders with their merger transaction (Karolyi, 2003).

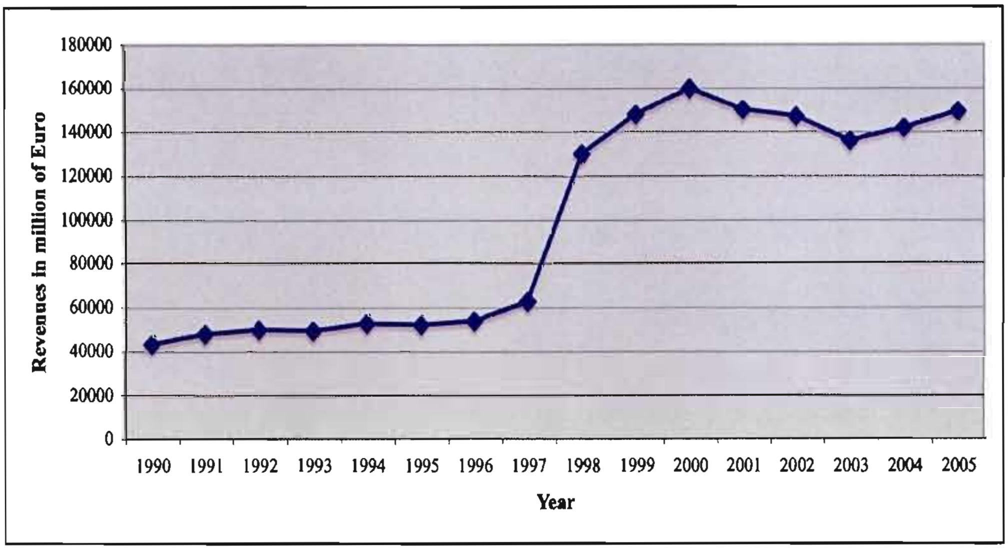
The fusion of Daimler and Chrysler led to the creation of a company with revenues of US$ 132 billion and approximately 440,000 employees. DaimlerChrysler became the fifth largest automaker in the world in number of vehicles sold and third largest in sales.

Eaton and Schrempp now charged with the responsibility of amalgamating two enterprises with very different cultures, market segments, and product lines, were now forged to create a vision on which DaimlerChrysler could base its future. Both leaders believed in the potential benefits from joint product design, development of new technology to meet emissions and fuel economy requirements, efficient manufacturing, combined purchasing and other economies of scale, as well as brand expansion and diversification. These synergies would position the combined entity as a powerful global player in the world market (St. Jean, 2004; Rädler, 2003; Airey et al., 2003; Nolan, 2003).

[33] A global registered share (GRS) is an ordinary share of a company that trades and transfers freely across national borders. On US exchanges, a GRS is quoted, traded and settled in US Dollars. Unlike American Depositary Receipt (ADR), a GRS is the actual share of the company, not a receipt representing the ordinary shares deposited in trust.

The following figure 5.4 illustrates the enormous growth in revenues after the merger with the American automobile manufacturer Chrysler. However, between 2000 and 2003 revenues of the German-American corporation began to drop due to a crisis of Chrysler in the American market and finally even decreasing sales of Mercedes-Benz in the world market.

Figure 5.4 DaimlerChrysler[34] development of revenues: 1990-2005



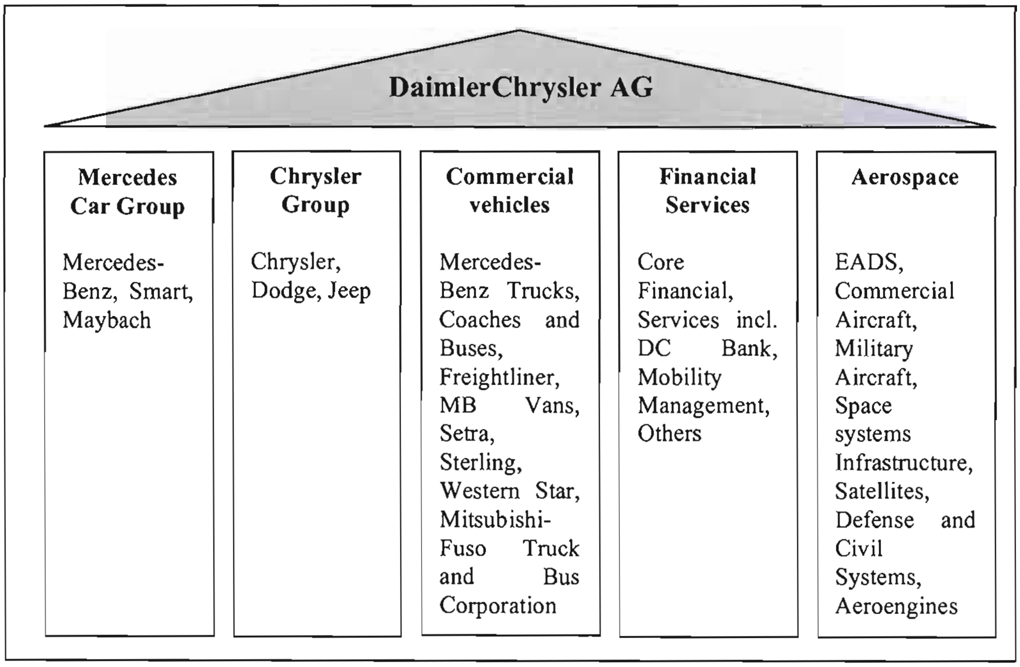
Sources: Adapted from Daimler-Benz (1991; 1992; 1993; 1994; 1995; 1996; 1997; 1998a) and DaimlerChrysler (1999; 2000; 2001; 2002; 2003; 2004; 2005; 2006).

The new board of management consisted of 18 members, eight from Chrysler, eight from Daimler-Benz, and two being responsible for the Aerospace and Services divisions. Jürgen E. Schrempp and Bob Eaton were to be co-chairman and co-chief executive officers for a period of at least three years (DaimlerChrysler, 1999).

Figure 5.5 shows the corporate structure of DaimlerChrysler after the merger in 1998. Chrysler apparently became Daimler's fifth business unit, which illustrates once more that "the merger of equals" did not reflect the reality of DaimlerChrysler's business structure after the merger.

[34] The revenues before the merger in 1998 represent the revenues of the Daimler-Benz AG.

Figure 5.5 The post-merger structure of DaimlerChrysler



Source: Adapted from DaimlerChrysler (2000: 2-5).

5.2.3.2 The quest to create one company

The merger with Chrysler revealed new challenges to the German corporation Daimler-Benz. Not only sensitive cultural issues were on the DaimlerChrysler agenda, but also issues concerning the general system of corporate governance: external transparency, controlling instruments, dividend payments, the orientation towards shareholder value, and the remuneration of top management.

The transparent disclosure to the public, including the use of US GAAP for financial reporting, was considered as central to the process of managing in the terms of shareholder value. For example, when the Chrysler side of the company was losing money in the year 2001, the response was a turnaround plan involving workforce reductions, asset write-downs, and supplier contract cancellations. Under GAAP, this required an immediate restructuring charge against earnings of US$ 3.1 billion (≈

2.25 billion Euro). Earnings thus incorporated the economic loss more quickly, and managers stemmed the losses more quickly. The contrast with covering up the 1993 losses under HGB accounting was stark (Ball, 2004; Küting/Pfitzer/Weber, 2004).

DaimlerChrysler saw the US GAAP and the shareholder value perspective as being a "managerial" as much as a "financial" accounting issue. A lack of internal transparency was a corporate governance liability, reducing unit managers' incentives to deliver profits, allowing loss-making activities to be tolerated longer, and reducing the ability of corporate managers to evaluate unit managers' performances and allocate resources among them. Therefore, it was a competitive disadvantage. Within three years, the Chief Financial Officer was able to report "significantly risen transparency within the group," subsequently to the merger with Chrysler and the adoption of US transparency and accounting standards (Gentz, 1999: 8).

The former German corporation Daimler-Benz moved toward the shareholder value model in other ways as well. In 1996, the Daimler-Benz AG instituted a stockholder approved stock option plan for management board members and other senior executives (Daimler-Benz, 1997). The plan was renewed in 2000, in order to close the gap between the remuneration of top managers in the USA and in Germany after the DaimlerChrysler merger. There were substantial differences in management compensation structures: in 1997, Chrysler CEO Robert Eaton was compensated with US$ 11.5 million (≈ 8.34 million Euro), whereas Daimler-Benz CEO Schrempp received only US$ 2 million (≈ 1.45 million Euro) (Grässlin, 2005).

In addition, Chrysler was already very adept with investor relations, for example, in dealing with Wall Street analysts or institutional investors. Daimler was traditionally more insider-oriented and had some difficulties to adjust to the American corporate investor policies. After the merger with Chrysler, investor relations improved in Germany and became more and more important on the corporate agenda (Airey et al., 2003; Nolan, 2003).

While Daimler-Benz very clearly adopted elements of a shareholder value model, it equally clearly did not embrace it in its entirely. After the Chrysler merger, it chose to remain a German corporation, "*Aktiengesellschaft*" (AG), and thus chose not to totally shed the consequential legal, economic, and other cultural influences on its governance and reporting. For example, its supervisory board continued to contain 50 per cent labour representation. In his report on *Value-based controlling at DaimlerChrysler*, CFO Gentz (1999) described a company trying to evolve a more hybrid governance model than it had described in 1996, incorporating elements of both the US and German systems. He now saw the need to merge the "common philosophies" of "shareholder value management at Chrysler" and "value-based management at Daimler-Benz." (Gentz, 1999: 6-8). Subsequent indications reveal that merging the two governance models into a viable hybrid could be more difficult than initially envisaged.

Another problem in the quest to create one company, which was not of financial nature, was the lack of communication between American and German managers. The differences between the US management style and the German management style led to serious communication problems and tensions in the first transatlantic merger. German CEOs spend more time developing and implementing consensus among members of their managerial boards, and less time acting as decision-makers, than their US counterparts.

The clash in management styles had almost immediate consequences: By 2002, only two of the thirteen members of the company-wide Management Board were from the Chrysler side of the business (Vlasic/Stertz, 2001).

5.2.3.3 The dream of creating a "Welt AG"

Since the mid-1990s, when Schrempp turned away from Reuter's vision of an "integrated multiple technology corporation", the new Daimler-Benz CEO worked on the realization of his own dream: the creation of a leading global automobile corporation, the so-called "*Welt AG*".

This new period of strategic management was characterized by many radical changes. The separation from less profitable business units, e.g. Fokker, the expansion of the scope of products offered in the automobile business unit, e.g. the introduction of the Smart or the A-class, and the acquisition of shares in foreign automobile companies in order to achieve a strong global presence in the automobile sector, e.g. the "merger of equals" with Chrysler or the acquisition of shares in Mitsubishi and Hyundai, were all part of Schrempp's *"Welt AG"* strategy.

In 1998, Bob Eaton (CEO of Chrysler at the time of the merger) and Jürgen E. Schrempp presented themselves as equally responsible leaders of the DaimlerChrysler Corporation. The *Spiegel*, one of Germany's best-known political and economical magazines, stated at the merger of DaimlerChrysler that with the DaimlerChrysler merger a company was born, which had no longer a place called home ("[...] *mit der Fusion eine Wirtschaftswelt entsteht, die kein Zuhause mehr kennt.*") (Spiegel, 1998).

According to Schrempp's idea of a "Welt AG" Chrysler was not an "equal" partner of Daimler-Benz as publicly announced, but should rather become one of Daimler's global business divisions, like the Mercedes- Benz Car Group or DASA. In 2000, Schrempp confessed publicly that the role of Chrysler in the "marriage made in heaven" was not the one of an equal partner, but rather the role as a subdivision of the German corporation Daimler-Benz AG. In an interview published by the London Financial Times Schrempp said:

> "The structure we have now with Chrysler [as a stand-alone division] was always the structure I wanted. We had to go a roundabout way, but it had to be done for psychological reasons. If I had gone and said Chrysler would be a division, everybody on their side would have said 'There is no way we'll do a deal.' But it's precisely what I wanted to do." (Burt/Lambert, 2000).

Already before the merger some of Chrysler's top executives left the company. Shortly after the merger, Chrysler's drain of talent continued.

In 1999, Dennis Pawley announced his retirement, stressing that his departure had nothing to do with the merger. In addition, Schrempp initiated the payment of "golden parachutes" to former Chrysler executives on the DaimlerChrysler board of management and in the same year the board size was reduced from 17 to 14 members. The streamlined board consisted of nine executives from Daimler and five from Chrysler.

The changing shareholder structure of DaimlerChrysler mirrored this trend. On January 26, 2000, Bob Eaton announced his retirement, which became effective on March 31. Since the beginning of the merger, Eaton had declared that his role was only transitional in the new firm (Airey et al., 2003; Nolan, 2003).

In November 2000, after a fierce crisis and continuing losses at Chrysler, Schrempp decided to get ride off Eaton's successor Jim Holden, the last Dream Team[35] member. His departure eliminated yet another board of management position, reducing the total members to thirteen. Dieter Zetsche, who moved to Auburn Hills, replaced Jim Holden.

At the same time Wolfgang Bernhard, a close associate of Zetsche, was named Chief Operating Officer of the Chrysler Group. On his arrival Zetsche demanded the resignation of three executives associated to Holden: Theodor Cunningham, Vice President of Sales, Kathleen Oswald, Chief Administrative Officer, and Antonio Cervone, Vice President of Communications (Vlasic/Stertz, 2001).

[35] The "Dream Team", consisting of Robert Lutz, Thomas Stallkamp, Francois Castaing, James Holden, Thomas Gale, and Dennis Pawley, was created by Chrysler to support the integration process of the two companies after the DaimlerChrysler merger.

Table 5.1 DaimlerChrysler's Board of Management after the merger: 10 Daimler and 9 Chrysler Executives

Member	Company	Responsibilities	Changes	Board position
Jürgen E. Schrempp	Daimler	Co-chairman		
Robert Eaton	Chrysler	Co-chairman	Retired 31/03/00	Removed
Manfred Gentz	Daimler	CFO		
Thomas Stallkamp	Chrysler	President of DC AG	Quit 09/24/99	
James Holden	Chrysler	S&M in North America + Chrysler brand management	Fired 11/07/00	
Dieter Zetsche	Daimler	S&M outside America + Mercedes-Benz brand management	President/CEO Chrysler Group, 11/00	Changed
Theodor Cunningham	Chrysler	S&M in Latin America	Gave up his board position 09/99	Removed
Eckard Cordes	Daimler	Corporate Development & Management		
Thomas Gale	Chrysler	Strategy, design and Operations, Chrysler brands	Retired at the end of 2000	Removed
Thomas Sidlik	Chrysler	Procurement Chrysler brands + Jeep Operations		
Gary Valade	Chrysler	Global procurement & supply		
Jürgen Hubbert	Daimler	Daimler-Benz passenger cars		
Kurt Lauk	Daimler	Commercial vehicles	Succeeded Zetsche	Changed
Manfred Bischoff	Daimler	Aerospace and non-automotive operations		
Klaus-Dieter Vöhringer	Daimler	Research and technology		
Klaus Mangold	Daimler	Services		
Heiner Tropitzsch	Daimler	Human resources & labour relations Daimler-Benz	Retired 09/99	
Dennis Pawley		Production & Labour Relations	Retired 01/31/99	Removed

Source: Adapted from Dow Jones Business News (DJBN) (1998).

Although, Schrempp excused himself for his comments in the Financial Times, he never denied the fact that it had been his plan to make Chrysler a division of the Daimler group. After Holden's dismissal, news leaked that the US $ 7.5 billion Chrysler bank account, which had been saved after Chrysler's turnaround in order to protect and support the company bad times, was empty. Rumours quickly spread that Daimler had used the money to purchase shares in Mitsubishi (Japan), 37 per cent, and Hyundai (South Korea), 10 per cent, which were part of Schrempp's vision of a

"Welt AG" with divisions on every continent and with automobile products ranging from small compact cars to luxury class sedans, and from lorries to caravans. DaimlerChrysler had failed to acquire shares in successful Asian companies such as Honda and Nissan. Therefore, the Mitsubishi Motors Corporation (MMC), although at the time highly indebted, seriously loss making, and having hardly any new potential models at hand, and Hyundai were to become DaimlerChrysler's first and main pillar in the Asian market (Airey et al., 2003; Nolan, 2003; Vlasic/Stertz, 2001).

On November 27, 2000, Kirk Kerkorian, DaimlerChrysler's third largest shareholder (he owned 14 per cent of the shares), filed a federal US$ 9 billion (≈ 6.52 billion Euro) lawsuit against DaimlerChrysler accusing the German management of lying to shareholders about the deal being a "merger of equals" (Vlasic/Stertz, 2001).

In the following years, Schrempp's dream of DaimlerChrysler becoming a leading "Welt AG" started to crumble. In 2004, the board of management decided to cut all financial support for Mitsubishi, Chrysler remained a problem child, and new ventures in China seemed to be rather difficult and slowly processing (Preuß, 2005). However, Schrempp never questioned his corporate "Welt AG" strategy and even if the value of the DCX share diminished about 40 per cent during the reign of the formerly so-called "Mr. Shareholder Value" (Grässlin, 2005). In spite of major corporate problems, Schrempp maintained, until 2005, in his position as DaimlerChrysler's CEO. He and his strategy were always supported and backed up by the chair of the supervisory board, and his personal friend, Hilmar Kopper (Deutsche Bank) (Dunsch, 2004; FAZ, 2004a; 2004b).

On July 28, 2005 Schrempp decided to resign from his post, although his contract had been already prolonged for the next three years. Subsequently to the ad hoc message, which publicly announced Schrempp's resignation, the share price of DCX increased enormously and several DaimlerChrysler executives (who had benefited from the new share option plan for executives in 1998), as well as the

Deutsche Bank took advantage of the sudden rise of the company's share price, selling great parts of their stock of shares (Grässlin, 2005).

The following figure 5.6 illustrates DaimlerChrysler's share price development between 1998 and 2005.

Figure 5.6 DaimlerChrysler's share price development: 1998-2005

Source: Adapted from Yahoo finance (2007).

After a short peak between 1998 and 1999, due to the merger with Chrysler in 1998, the DaimlerChrysler share price began to decrease continuously until mid-2003. Only after Schrempp resigned as DaimlerChrysler's CEO in 2005, the company's share price gained new strength (Preuß, 2005). Moreover, Zetsche's new strategy to focus on Daimler's core activities and the decision to sale Chrysler in 2007 had a positive impact on Daimler's share performance, which led to the fact that the company has finally regained its share price value after ten years.

5.2.3.4 An outlook to the present

Since January 1, 2006 Dr. Dieter Zetsche has taken over the lead of the DaimlerChrysler Corporation, announcing serious lay-offs and a cost-cutting strategy to bring the company's financial results in better shape. Dr. Dieter Zetsche has been a member of the Board of Management of the DaimlerChrysler AG since December 16, 1998, and Chairman of the Board of Management of the DaimlerChrysler AG since January 1, 2006. He is also responsible for the Mercedes Car Group division, which includes passenger cars of the brands Mercedes-Benz, Maybach and Smart as well as Mercedes-Benz AMG and Mercedes-Benz McLaren. Dr. Dieter Zetsche has replaced Dr. Eckard Cordes, who had become chief of the Mercedes-Benz Car Group in order to bring the "star division" back on track (Preuß, 2005). However, Cordes decided to leave the company, on August 31, 2005, when he got to know that Zetsche was going to become the heir to Schrempp's throne (FAZ, 2005a).

Schrempp's plan and dream to create a leading automobile "Welt AG" had caused serious damage to the shareholder value of the company.

In the course of Zetsche's new strategy the company and its divisions should return to stable profitability. Lean management, cost cutting, lay-offs, and the sale of loss-making divisions are an important part of this new strategy. In October 2005, DaimlerChrysler, Hyundai, and Mitsubishi, in order to create and to benefit from scale effects in the development and production of engines for the three companies, found the Joint Venture Global Engine Manufacturing Alliance (GEMA). A month later DaimlerChrysler sold the remaining shares of MMC (12.4 per cent). Between the years 2005 and 2008 the company plans to lay-off about 14.000 employees, furthermore, in the following years, after the end of workforce security act, which the company has signed until 2012, another 10.000 jobs are to be cut (FAZ, 2005b). The workforce reduction is to be achieved by payout offers, early retirement initiatives, fluctuation, and displacements, which have proven to be rather costly methods.

In September 2006, DaimlerChrysler finally achieved to find its first cooperation partner in China: Chery Automobile. Chrysler is to sell the cheaply manufactured small compact cars from China under the Dodge label in the US market.

After the difficult eras of Reuter's "integrated technology corporation" and of Schrempp's "Welt AG", Zetsche will have to prove in how far he is able to create a new DaimlerChrysler vision for sustainable growth in global markets in the present and in the future. In February 2007, Zetsche announced that Chrysler and Daimler might go separate ways in the future. One of the most potential buyers of Chrysler was Kirk Kerkorian (Financial Times, 2007).

On May 14, 2007, the DaimlerChrysler Corporation announced it sells a controlling interest in its struggling Chrysler Group to Cerberus Capital Management, a private equity firm that specializes in restructuring troubled companies, for US$ 7.4 billion (≈ 5.35 billion Euro), mostly in the form of capital that Cerberus will put into Chrysler. The agreement leaves DaimlerChrysler with a 19.9 per cent stake in Chrysler, but frees it of a great amount of pension and health care liabilities. Cerberus will take an 80.1 per cent stake in the new company, to be known as Chrysler Holding. Chrysler executives will leave the DaimlerChrysler management board, which will be reduced to six people. In regard to the Chrysler buyout Zetsche said, "We're confident that we've found the right solution that will create the greatest overall value - both for Daimler and Chrysler," and Chrysler's chief executive, Thomas W. Lasorda added "As a private company, Chrysler will be better positioned to focus on its long-term plan for recovery, rather than just short-term results." (New York Times, 2007).

Chrysler's former president, Wolfgang Bernhard, who advised Cerberus, may receive a seat on the board of the new Chrysler or play some other role. Bernhard visited Chrysler several times in the last few weeks, and has remained friendly with Zetsche, who ran Chrysler when Bernhard was president during the early 2000s.

Regarding the Chrysler buyout the Service Employees International Union, a politically active organization that represents nearly two million workers, released a report expressing public policy concerns about private equity. Among those were questions about the lack of disclosure and about certain tax breaks for buyout firms. Along with the unions, government officials have expressed increasing concern over the financial restructurings that are the lifeblood of buyout firms; their overhauls of companies have often included massive cuts in jobs or benefits. In Germany private equity firms have been traditionally derided as 'locusts that strip companies of their assets' (Wihofszki, 2007).

Nonetheless, DaimlerChrysler's shares have climbed 15 per cent, to $82 on Friday, since mid-February, when private equity firms entered the bidding for Chrysler. The shares rose again in trading today, climbing about 1.7 per cent. At the company's raucous annual meeting in Berlin last month, a succession of shareholders stood up to demand that the company move swiftly to dispose of Chrysler. "This marriage made in heaven turned out to be a complete failure," said Hans-Richard Schmitz, who represented the German Association for the Protection of Shareholders "What's missing now is a swift resolution of the issue by the management of the group." (Landler, 2007: 1).

5.3 Conclusion

The early history of the German Daimler-Benz Corporation, which was created in 1926, in the course of the merger of "Benz & Co. Rheinische Gasmotoren-Fabrik, Mannheim" and the “Daimler-Motoren-Gesellschaft”, moulded the corporate culture and corporate identity of Daimler-Benz for the following decades. Until the 1970s, the evolution of the Swabian automobile company remained closely related to the evolution of the German economy. In the 1980s the globalization of markets led to a first brake with the traditional manufacturing of automobiles in Germany. New production sites were increasingly set up abroad and Edzard Reuter, Daimler’s CEO between 1987 and 1995, tried to make the company an “integrated technology corporation”, acquiring companies from other technology fields (AEG, Dornier, MTU, etc.).

The 1990s, on which this study focuses, turned out to be a period of radical shifts and changes for Daimler-Benz.

One of the most difficult periods in the company’s history has proven to be the period between 1990 and 1995. At the very beginning of the 1990s until the end of 1992, Reuter still tried to continue the realization of his dream founding the fourth column of his worldwide operating integrated technology corporation for transportation and defence. His dream ended in 1993, when major problems occurred for the company, forcing the Daimler-Benz management to react by closing down production sites and cutting jobs. The consequence of events that unfolded around the Daimler-Benz AG in the year 1993 was without precedent. It started with Daimler reporting a profit under HGB rules and ended with announcements of plant closings and involuntary employee lay-offs. In between, Daimler announced it would list its stock on the NYSE, reported key financial information calculated under US GAAP, revealed it actually was making a loss, and revealed it had substantial hidden reserves. The news of the first loss announcement in the company’s history and the enormous difference between the results calculated under HGB and US GAAP, shocked the public as well as financial experts.

In 1995, Jürgen E. Schrempp, former DASA chairman, succeeded Edzard Reuter as head of the Daimler-Benz Corporation. With Schrempp, "Mr. Shareholder Value", a new era with radical changes commenced. The new CEO, following his "*Unternehmenskonzept*", chopped of loss-making business units (Fokker, AEG, debis, etc.), rationalized the size of the workforce, and merged Mercedes-Benz with Daimler-Benz, making him the absolute leader of the company and its divisions. Schrempp's vision to make Daimler-Benz a leading automobile "*Welt AG*" lead to the merger with Chrysler, the number three US auto manufacturer. The DaimlerChrysler Corporation was formed in 1998 with the biggest industrial merger in history, creating a global giant with sales of US$ 155 billion and 440, 000 employees. It combined Mercedes-Benz, for decades synonymous with supreme German engineering quality, luxury, and speed, with Chrysler, a symbol of Americana and the world's most profitable auto company. Startlingly, after three years DaimlerChrysler was reporting financial statements prepared "from the ground up" under US GAAP, and was openly espousing a modified shareholder value model.

However, hailed at the time as a marriage of two great industrial icons, the rhetoric has since given way to a more prosaic reality. The "merger" turned out to be a German takeover and the combined group plunged into losses. Jürgen E. Schrempp, the CEO and architect of the deal, fought in the following years a desperate battle to restore the company to financial health. In addition, Schrempp's "Asian Strategy" to buy important share holdings in Mitsubishi and Hyundai, making a first step into the emerging market, failed due to the bad condition Mitsubishi was in and turned out to be very costly for the company.

However, until the end of his reign in 2005, Schrempp never questioned his "Welt AG" strategy, even if the shareholder value of DaimlerChrysler had decreased about 40 per cent during is time in office. Hilmar Kopper, representative of the Deutsche Bank and chairman of the Daimler-Benz, later DaimlerChrysler, supervisory board, always backed up for Schrempp's mistakes. The new and present CEO, Dr. Dieter Zetsche, will have to prove how he will bring the financially stricken DaimlerChrysler AG back on track and create a vision for sustainable growth in the future. The recent sale of Chrysler to the private equity company Cerberus seems to be Zetsche's first and fundamental step in a new corporate restructuring process.

In the next chapter we will analyse the evolution of the market for services and products, the market for capital and the market for "talent" in the case of DaimlerChrysler with a focus on the corporate changes in the 1990s. The chapter about the company, its history and its evolution throughout the 1990s, will be an important reference for the conclusion of the study about the impact of the market forces, described in chapter VI, on the corporate governance and management system of the German corporation Daimler-Benz, later DaimlerChrysler.

CHAPTER VI

ANALYSIS OF THE THREE MARKETS

According to the model of the three markets developed by Allaire and Firsirotu (1993; 2004), a company is influenced and controlled by the forces of three distinct markets:

- the market for products and services;
- the market for "talent";
- and the market for capital.

In the case of DaimlerChrysler these three dynamic market forces seem to have had an important influence on the nature of the company's system of management and corporate governance particularly in the 1990s. In this chapter, I will try to explore and investigate the evolution of the three markets surrounding Daimler-Benz, later DaimlerChrysler, in particular in the period between 1990 and 1998, and their impact on the company until the year 2005.

6.1 The market for products and services

In 1993, passenger cars and commercial vehicles provided the major part of the Daimler-Benz's revenues and were the primary source of the company's worldwide reputation. Only 40 per cent of the company's revenues derived from other business activities: aircraft, space, defence, rail systems, microelectronics, and financial services (Daimler-Benz, 1995). The Mercedes Benz brand (cars and commercial vehicles) was one of the best-known brands in the world, and the company's automobile products had a long-standing and well-earned reputation for "made in Germany" quality engineering, reliability, refinement, and luxury.

At the end of the 1990s, DaimlerChrysler refocused on its core competencies in the automobile business, after the merger with the American automobile manufacturer Chrysler in 1998. Henceforth, it was not surprising that in 1999 already over 85 per cent of DaimlerChrysler's revenues derived from passenger car and commercial vehicle activities (DaimlerChrysler, 2001).

Considering the strategic and economic importance of the automobile business for DaimlerChrysler, I have decided to concentrate, in the analysis of the market for products and services, on the situation and development of the automobile market in the 1990s. Furthermore, the focus on one product market provides the research advantage of an in-depth analysis of one specific market for products and services.

6.1.1 Globalization, modernization and consolidation

The German automobile industry changed to a great degree during the 1990s due to strong rationalization and modernization tendencies, but especially due to the globalization of the whole industry.

The globalization of product markets in the 1990s led to a consolidation of the automobile sector into a few global players. The number of firms dramatically declined and the conventional wisdom spread among automobile makers that they must produce 4-5 million cars a year to remain competitive (Foudy Jr., 2001; Jürgens/Krzywdzinski, 2006; Pries, 1999).

Changes in the automobile sector were global and made worldwide leading car manufacturers rethink their corporate strategies.

Figure 6.1 The 1990s pace of consolidation in the automobile industry

From fragmented national industries		**To a few global players**
US	**Japan**	**Big Six**
General Motors	Toyota	
Ford	Hino	**GM Group**
Chrysler	Daihatsu	Isuzu, Suzuki, Saab, Subaru, Fiat,
	Nissan	Daewoo
Germany	Honda	
Daimler-Benz	Isuzu	**Ford Group**
Volkswagen (Audi)	Suzuki	Mazda, Volvo, Jaguar, Rover
BMW	Subari	
	Mitsubishi	**Volkswagen Group**
France		Audi, Skoda, Seat
Renault	**Korea**	
Peugot-Citroën	Hyundai	**DaimlerChrysler Group**
	Kia	Mitsubishi, Hyundai (Kia)
UK	Daewoo	
Rover		**Renault-Nissan**
Jaguar	**Eastern Europe**	Dacia
	Skoda	
Sweden	Dacia	**Toyota Group**
Volvo		Hino, Daihatsu
Saab	**Spain**	
	Seat	**Independents**
Italy		Honda
Fiat		BMW
		Peugot-Citroën

Source: Foudy Jr. (2001: 22).

In the past, Japanese automobile manufacturers' lean production techniques, e.g. Toyota or Honda, and the unique keiretsu structure were Japanese strategies to render scale economies obsolete in competition with American firms, e.g. General Motors or Ford, which dwarfed them in size. German automobile makers, e.g. BMW, Mercedes-Benz, or Porsche, used to rely on a high skill engineering craft tradition that permeated its workforces and suppliers to find its competitive edge. However, at the beginning of the 1990s, powerful new economies of scale started to drive the industry, which reflected several forces at work:

- First, the shear size offers an advantage in terms of purchasing power for parts and raw materials. Firms have become much more skilful at pooling their purchasing and driving down the prices for the goods and services they buy. The larger the firm, the larger the company's power to demand discounts from its suppliers. This includes also first tier suppliers in the automobile industry who purchase billions in raw materials and finished parts.

- Second, size allows firms to save money by sharing parts and platforms between several models (Brylawski, 1999). This saves money by spreading the cost of designing and developing parts over a larger number of vehicles. Designing a separate engine alone may cost over half a billion dollars but doubling or tripling the order volume for a single part from a supplier will often enable 20 per cent reductions in price or more. In this way, costs for commoditized inputs such as steel may also be effectively lowered by purchases on a larger scale. Furthermore, reducing the number of firms with which the company must maintain purchasing relations, saves substantial personnel costs and money usually spent negotiating over parts prices and visiting suppliers to insure quality standards. The development of shared automobile 'platforms' (loosely considered to be frame and major components of the car) is another important factor increasing the product volume and reducing product costs. Dramatic cost savings can be achieved sharing a major platform by saving a large amount of the engineering costs for different models (Clark/Fujimoto, 1991). The remaining parts of the car the so-called 'hat' (loosely defined as the interior passenger compartment of the car and the exterior frame of the car that is visible to the customer) can be inexpensively customized. Platform sharing has been a major rationale in the acquisition of a stake in Mitsubishi for DaimlerChrysler, since Chrysler and Mitsubishi could rationalize their use of platforms.

- A further step from the use of "platforms" in the manufacturing process is the modularization of the production. In this case, new megamodule suppliers, who amortize their own R&D, design and engineering costs for parts by selling modules, albeit customized, to several automobile manufacturers, supply the automaker for the final assembly. The structural change in the automotive supply has been greatest in Europe. According to a study of a German consultant group, modules and systems made up 22 per cent of the total automotive supply for European carmakers in 1993; components made up 57 per cent; standard parts 13 per cent and raw materials 8 per cent (Wolters, 1995). In 2000, the share of modules and systems reached 43 per cent; the share of components decreased to 42 per cent; the share of standard parts made up 8 per cent and the share of raw materials 7 per cent of the total supply value (McAlinden/Andrea, 2002). However, the use of platforms and modules in the production process does not only have positive cost saving effects for the company. In fact, the new production methods force a shift in the architecture of car production: a reduction of the core workforce of firms via increased outsourcing, a consolidation in the supplier industry, and a greater internationalization of production, which finally leads to a loss of the production skills necessary to produce cars in traditional car manufacturer companies.

- Third, size offers also product and service diversification advantages. The automobile sector being a highly cyclical industry bears a high level of uncertainty and at the same time it implies very high fixed costs and capital needs. In order to reduce the volatility, carmakers strive to diverse their model lines and their geographic scope. Global sales and production capacities offer a natural hedge against downturns, protecting firms from dangerous currency swings (Pries, 1999).

- Fourth, the increasing technological sophistication of the industry and the adoption of new technologies are forcing an increase in capital spending. The R&D budgets of all the larger manufacturers run into billions of dollars yearly. The global shift from the internal combustion engine to fuel cells, hybrid engines and other new technologies are very costly (Becker, 2005). In particular, the resources of smaller producers are seriously outstripped in strive for new technologies. Even for luxury producers, such as BMW or Porsche, which are able to maintain large margins on their profits to develop such technologies or buy them from others, the insurance of the access to these future technologies remains a great challenge. Other large capital concerns are the increasing use of the internet in managing production and suppliers (for purchasing and supply chain management) and telematics (the internet, drive-by-wire, computers in automobiles). In fact, the costs are so daunting that large-scale collaboration among competitors has become the norm in this area. The Ballard fuel cell consortium and the Covisint Internet exchanges are only two examples of companies sharing the risks of these technologies and accepting that they will operate from a level playing field in their use.

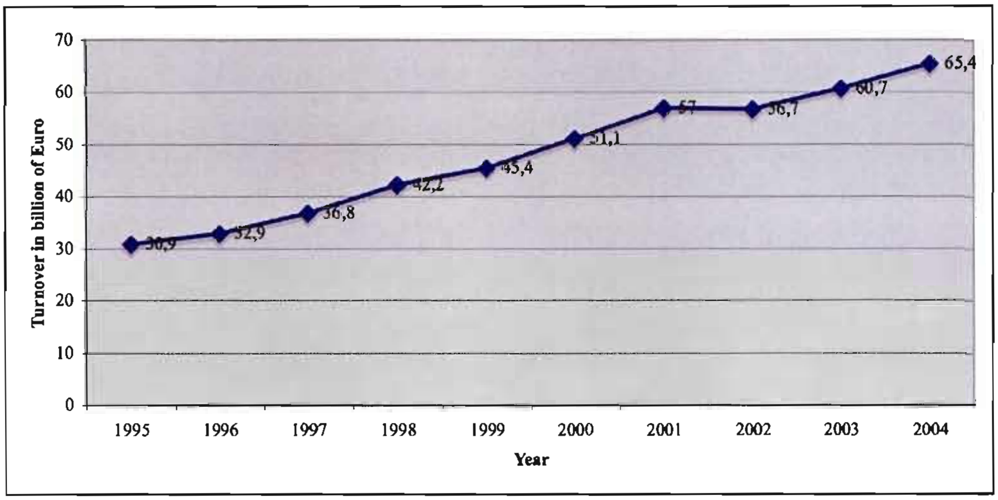
6.1.2 Changes in the supplier industry

Changes in the automobile industry led also to a fundamental restructuring of the automobile supplier industry and the general automotive value chain.

The majority of the automobile manufacturers increased the outsourcing of important processes down the value chain to first-tier suppliers, including the management of second- and third-tier suppliers. Due to this change the number of first-tier suppliers reduced from hundreds to a few megasuppliers, which gained new competences and grew in size. For example, GM moved to select 5 suppliers to manage the complete interiors of its cars. Between 1994 and 1998, consolidation in the supplier industry was intensive; the value of merger and acquisitions among auto suppliers grew from US$ 2.1 billion to US$ 18.9 billion annually. The average deal size, a rough proxy for the growth in average firm size, grew from US$73 million in 1994 to US$205 million in 1998 (Foudy Jr., 1999).

In Europe, the restructuring of the 1990s made the European supplier landscape a particular hot spot. This for two reasons: Firstly, many of the existing companies were too small in terms of new product development capacity, global plant coverage, and access to capital markets. Hence, requirements of car manufacturers regarding modularization and globalization could not be met under these conditions. Secondly, with the Big Three US companies, GE, Ford, and Chrysler, as well as PSA Peugot Citroën and Fiat in Europe, spinning off their internal supplier base, these companies aggressively acquired European firms to gain access to specific technologies. Other American companies, most of them publicly listed, followed taking advantage of the favourable stock-market conditions in the USA.

Figure 6.2 Annual turnover of the German automobile sub-supplier industry



Source: Adapted from FAZ (2005c).

Consequently, the traditional structure of the European supplier industry had come under strong pressures for change, including the restructuring of car manufacturer-supplier relationships in Europe (Jürgens, 2003; Pries, 1999). In this regard, the following three developments are of specific interest: Firstly, modularization, as mentioned before as one of the main causes for consolidation in the automobile sector, and systems-supply capabilities; secondly, supplier parks and car manufacturer/supplier plant consortiums, and thirdly the formation of regional networks ("clusters") of small and middle-sized enterprises (SME) (McLaughlin/Maloney, 1999).

Although the trend towards modularization is global, there exist different country-specific models of modularization. Japanese car manufacturers, in particular Toyota and Honda, prefer functional modules and emphasize the optimization of total vehicle design. Outsourcing is only one of the available methods to reach such goals. Both companies do not see the benefits of charging their suppliers with larger responsibilities in the sense of the modularization approach. They rather seek to retain basic competencies in all strategic areas, especially in the gain of new competences and in the development of new technologies, as well as the control over the value chain.

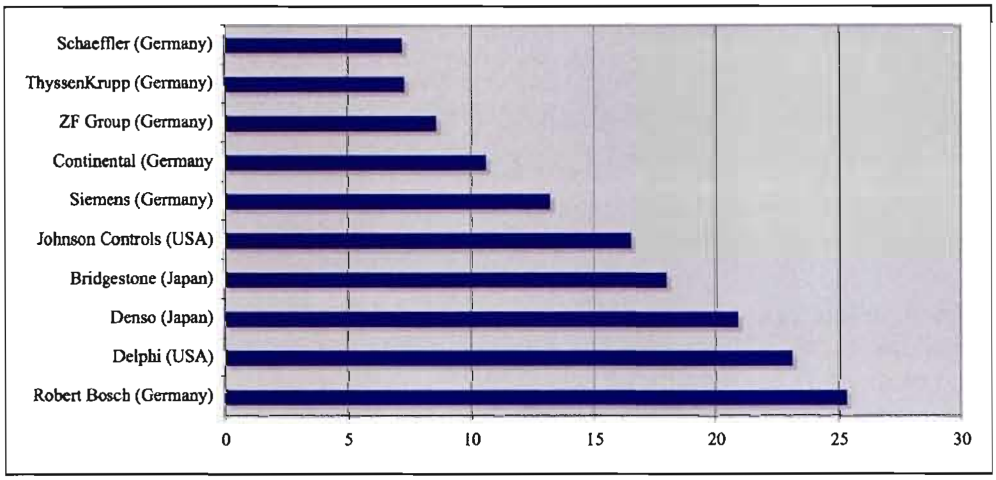
In contrast, European and American car manufacturers, aiming to focus on core competencies, have increased the responsibilities of their first-tier suppliers even if this meant the loss of competencies in these areas. They also require suppliers to take the responsibility for new product development as well as for purchasing and organising the supply chains of their products.

Another trend in the supplier industry, which commenced in the 1990s, led towards increasing specialization, affecting the way the value chain is coordinated and controlled. While in the past the car manufacturers had tried to control more or less all steps of the process chain of its suppliers, since the mid-1990s each of the new specialised groups developed its own area of responsibility.

Generally, it is possible to distinguish between four different groups of specialists: firstly, the group of companies specialising in components that require high technology expertise (e.g. KS, Mahle, GKN and Meritor); secondly, the group that specialises in systems and modules (examples are Visteon, Lear, Johnson

Controls, and Bosch); the third group specialises in product development tasks such as computer-aided design, prototyping, testing, etc. (e.g. firms like EDAG Engineering, AVL, Bertrandt and Rücker); and the fourth group aims at becoming assembly specialists (e.g. Karmann, Bertone, Matra, Pininfarina, Magna, Valmet, etc.). Most companies of the fourth group have the engineering capacity to develop whole cars (Jürgens, 2003).

Figure 6.3 Major automobile sub-suppliers (turnover in billion of Euro)



Source: Adapted from FAZ (2005c).

From a competence point of view, these companies are very close to become brand name companies themselves. The fifth group would be composed of the former car manufacturing companies, which have become more or less brand integrators focussing on product planning and marketing. A consequence from the tendency of specialization is the fundamental change of the relationship between car manufacturers and their suppliers. The image of "networks" seems more appropriate than the image of car-manufacturer-dominated "pyramids" to describe the new configuration of actors (Jürgens/Krzywdzinski/Teipen, 2006).

6.1.3 The spread of global vehicle sales

The spread of vehicle production on a global scale, especially the relocation of production sites to developing countries increased markedly in the boom years of rapid expansion in the emerging markets in the 1990s. Production was increasingly moved to other countries because of high German labour costs (hourly rates approximately double those in the United States).

Global vehicle production rose by nearly 7 million units between 1990 and 1997, although the increase in sales over the same period lagged considerably behind this, at just under 4 million units (OICA, 2007). Much of this growth was concentrated in developing countries. In the Triad regions (the United States of America and Canada, i.e. North America, Japan and Western Europe), the vehicles industry was already in a very mature state, being plagued by overcapacity, cost pressures and low profitability. Of the three Triad economies, only North America was buoyant at the end of the 1990s until 2005. In fact, this resulted from the long boom of the United States' economy, the substitution of imported Japanese cars by cars built in transplant factories, and the remarkable and profitable shift of consumer demand from passenger cars toward light trucks (Becker, 2005).

In contrast, vehicle sales in both Western Europe and Japan decreased steadily since 1990. Overall, vehicle sales in the three Triad regions rose by only 0.6 per cent between 1990 and 1997 and by 3.6 per cent between 1997 and 2005. Production rose by 4.2 per cent in the period 1990-1997 and decreased in the period 1997-2005 even by 1.39 per cent. The stagnation of production and sales in the Triad regions was in marked contrast with the growth of the industry in the rest of the world. While both production and sales of vehicles remained concentrated in the Triad economies, which accounted for more than 70 per cent of global vehicle sales in 1997 and still for 62.95 per cent in 2005, a remarkable feature of the period 1990-2005 was that in absolute terms the increases in production and sales of vehicles in the rest of the world far outstripped the increases in the Triad regions. In the Triad regions, vehicle sales rose by 1,686,000 units in this period. In the rest of the world (World total minus Triad countries), sales increased by 13,944,000 units. For vehicle production, the respective figures were 1,149,000 units and 14,895,000 units (OICA, 2007).

Table 6.1 International automobile sales and production: Unit sales and production of motor vehicles by country and region

Country	Unit sales (in thousands)			Production (in thousand units)		
	1990	1997	2005	1990	1997	2005
USA/Canada	15 464	16 922	19 570	11 704	14 690	14 669
Western Europe	15 005	14 829	14 510	15 568	16 825	16 440
Japan	7 777	6 725	5 852	13 487	10 975	10 799
Mexico	550	503	1 110	821	1 338	1 670
South America	1 201	3 270	4 534	1 121	2 803	2 984
Eastern Europe (excluding Russia)	1 090	1 060	2 560	1 266	1 686	3 720
Republic of Korea and Taiwan	1 437	1 995	1 832	1 674	3 199	4 145
ASEAN[36]	848	1 347	1 200	841	1 325	2 260
China	704	1 616	5 969	509	1 583	5 707
India	357	761	830	364	770	1 626
Other (Russia, the whole of Africa, and other unspecified producers)	3 367	2 752	5 463	3 275	2 407	2 445
World total	47 800	51 780	63 430	50 421	57 257	66 465
Triad regions	38 246	38 476	39 932	40 759	42 490	41 908
Fast-growing emerging markets	4 750	8 557	16 203	4 922	9 505	17 967
Other markets	4 804	4 747	7 295	4 740	5 262	6 590

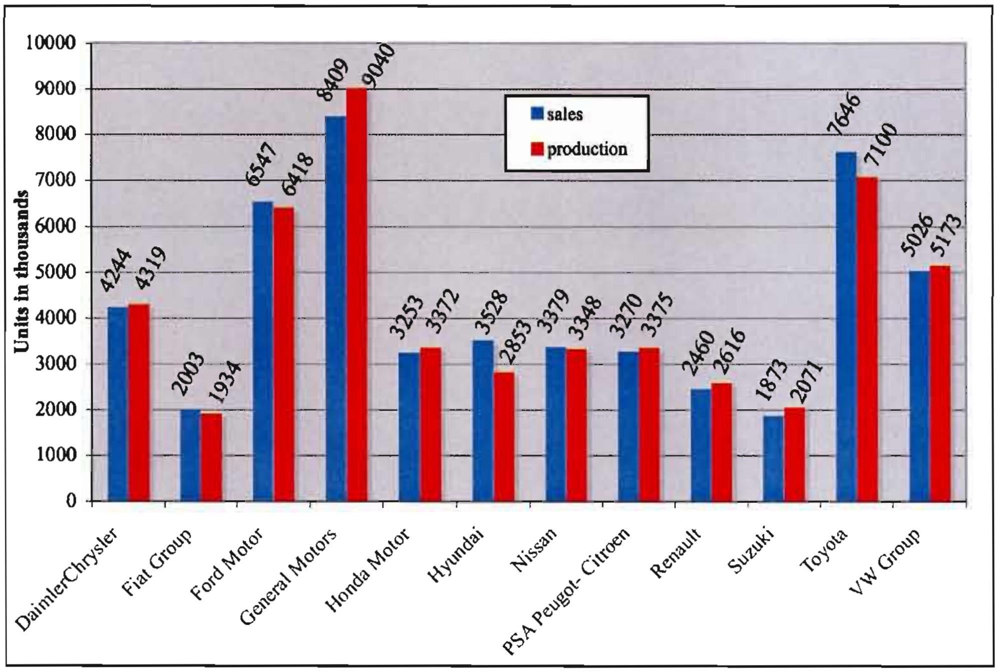
Source: Adapted from OICA (2007).

A consequence of the development described above was that new emerging automobile and commercial vehicle markets in Asia and South America became a

[36] The Association of Southeast Asian Nations (ASEAN) is a geo-political and economic organization of 10 countries in Southeast Asia: Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.

new important focus for the global players in the automobile manufacturing in the 1990s.

Figure 6.4 Light vehicle sales and production by manufacturer in 2005

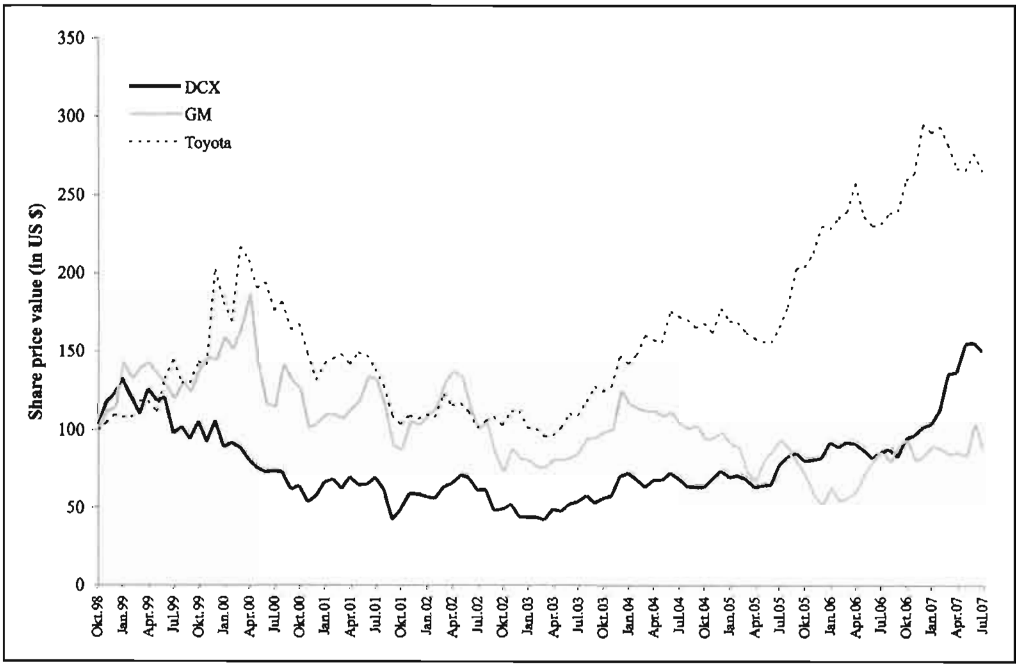


Source: Adapted from OICA (2007).

Concerning the number of vehicle units sold and produced by manufacturer it is important to notice that Toyota has become the most successful manufacturer in terms of efficiency. Even in terms of quantity Toyota (sales in units of thousands: 7,646; production in units of thousands: 7,100) has succeeded to overcome leading American and European automakers, like DaimlerChrysler (sales in units of thousands: 4,244; production in units of thousands: 4,319), Ford (sales in units of thousands: 6,547; production in units of thousands: 6,418), and Volkswagen (VW) (sales in units of thousands: 5,026; production in units of thousands: 5,173).

The following figure 6.4 shows DaimlerChrysler's share price performance between 1998 and 2005 in comparison to its two competitors General Motors and Toyota. The graph illustrates Toyota's outstanding performance and the generally weak performance of American car manufacturers, represented in this example by General Motors and partially also by DaimlerChrysler.

Figure 6.5 DaimlerChrylser's share price performance in comparison to its competitors in the period between 1998 and 2005



Source: Adapted from Yahoo finance (2007).

6.1.4 Shifts in the labour market

The spread of global vehicle sales and, hence, the increase of international competition among car manufacturers, had also a serious impact on the labour relations in traditional industrialized countries, like Germany. There was no real threat of total exit to the third world, but a dynamic of constant competition and benchmarking of one plant against another and whatever prices suppliers can offer within a more closed, European production network. One response to this has been the creation of European Works Councils and calls for creating global works councils (Hancké, 2000).

Furthermore, in the 1990s, the increase of outsourcing triggered not only the competition among car production plants but also the competition between car manufacturers and supplier firms. Coordination among labour across the extended enterprise and across firms now seemed as pressing as coordination within one firm that happens to operate across national boundaries. Moreover, companies shifted from simply having suppliers deliver modules to having them produced within the same industrial park and even installed by supplier workforces. German unions were resisting these trends, which they saw as breaking up the solidarity of the factory floor. But the alternative to integrated production systems with suppliers tied-in closely, was a more spread out geographical network of module suppliers, where the threat of exit was much higher and relocation became easier (as modular factories employ fewer workers, require much less capital and automakers do not have to worry about the costs of suppliers also relocating). The shifting of labour force from larger to smaller firms and the increase in exit options all were potential threats to workers (Jürgens/Krzywdzinski, 2006).

For labour, modular production could also greatly reduce the skill level necessary for workers to produce diversity-quality-products (DQP) (Knauss, 1998). It threatens the entire premise of the "tightly coupled production system" and the highly skilled German "*Facharbeiter*" (specialized worker) to operate within it.

With the increasing globalization of the market for automobile products and services, the German labour relations, characterized by unique labour market institutions and apprenticeship and vocational training programs, as well as a strong codetermination and work council law ("*Mitbestimmungsgesetz*" and "*Betriebsverfassungsgesetz*"), was more and more under pressure to change.

6.1.5 The impact on the DaimlerChrysler Corporation

In the face of industry consolidation in the 1990s, which had been caused among other reasons by the need for size and permanent capital access, Daimler-Benz treated expansion as a critical component to its profit strategy.

Platform development costs were being increasingly shared by Daimler-Benz's competitors across a range of models, creating substantial cost disadvantages for companies that operated with a limited product range. In fact, Daimler-Benz's production was concentrated on high-end luxury cars, and companies that were trapped in that segment of the market alone were disappearing one by one through merger and acquisition. In addition, competition in the luxury passenger car market was increasing and threatened the company's market niche, for example, Toyota's stunning entry with its Lexus brand and BMW's resurgence in top-end models. Sharing platform costs across models was what had allowed Toyota to sell the superbly engineered and produced Lexus at such a low price — a price that Daimler was unable to match with a comparable Mercedes. On the other hand, management was concerned that extending its product range down-market to achieve cross-model economies would dilute the Mercedes brand's cachet.

In 1993, sales plans and production schedules had to be revised downward by Daimler-Benz as sales of passenger cars weakened throughout Europe. Moreover, sport-utility vehicles (SUVs) and light trucks had moved into the market, generating an urgent need to revamp and extend Daimler-Benz's product line.

The merger with Chrysler, the acquisition of a large stake in Mitsubishi, and the alliance with Hyundai were part of the attempt to reach a "critical mass" in the new "global" automobile market. Even before the merger with Chrysler, Mercedes had been attempting to leverage its position in the luxury market toward other segments of the car market.

The introduction of the C-class in the 1980s and the A-class in the mid-1990s, were examples of this strategy that predated Daimler's embrace of shareholder value. The Smart subcompact car was another attempt to grow the company's car sales, though it does not share the Mercedes logo. The M-class sport utility vehicle (SUV) is an attempt to leverage its existing brand to enter the highly profitable SUV segment. The purchase of Chrysler and its later purchase of a large stake in Mitsubishi would allow all three companies to share parts, pool purchasing costs through a global sourcing strategy, merge R&D budgets, and find other sources of cost savings through an increased economy of scale. Mercedes pushed for this despite the potential dangers to its brand image and to the large margins it receives on the sale of its Mercedes luxury sedans.

In fact, Daimler-Benz first seemed reluctant to embrace modularity given its traditions of craft production and excellence in engineering. The fear that quality might suffer, considering the low tolerances and emphasis on quality manufacturing, seemed to stop Daimler from outsourcing. However, pressure from global competition in the automobile markets to reduce costs and Jürgen Schrempp's newly introduced profit goals, which he set in 1995, led the company to an aggressive policy of outsourcing and modularization. Already during the 1970s, Daimler-Benz outsourced about 45%

of the value of the car and built 55 per cent. At the end of the 1990s, the company produced below 40 per cent of the content for many models and only about 21 per cent for the new M-class (Foudy Jr., 2001). Although Mercedes executives believed that if the company produced below 20 per cent of its cars, especially its premium lines, it would lose its identity and water down the brand (Vlasic/Stertz, 2001), the German car manufacturer produced a "de-integrated supply chain" where Mercedes finally added only 15 per cent of the value to the final automobile (Van Hoek/Weken, 2000). Daimler-Benz's Smart car facility, where it was responsible for less than 15 per cent of the value of production and suppliers "leased" space from Daimler for the car manufacturing, was an industry trendsetter at the time.

The new modularity concept allowed Mercedes also to set up new production facilities in the US, whose quality finally met the standards necessary to maintain their brand. Furthermore, US production networks could be set up with a far greater degree of outsourcing and less costs.

Modularity also allowed the company to rapidly integrate new developments into its cars that otherwise might require substantial planning and redesign. Utilization of modular production and increased outsourcing within the firms' production systems forced a reassessment of the diversified quality production concept. At the end of the 1990s, DaimlerChrysler could produce luxury vehicles in the US with American workers lacking in vocational training without an increase in cost or a decline in quality, outsourcing the production of entire segments of the car.

In Germany, Mercedes also started to make greater use of European and American megasuppliers for components or whole modules. The need for high technology and cost reductions in the production process seemed to render incremental innovation, skilled workforces and tightly coupled production systems less important.

Global centralized purchasing became another important issue for Daimler-Benz, later DaimlerChrysler, in the 1990s. The company aimed to achieve important cost savings, leveraging the larger relationship with many suppliers in price negotiations and creating a global sourcing system pooled for its production facilities around the world. However, the preservation of key aspects of the Mercedes prestige was assured with a "brand bible", a detailed memorandum dictating what can and cannot be shared between brands (Vlasic/Stertz, 2001). Most notably, Daimler-Benz banned the concept of platform sharing between Chrysler and Mercedes, which was a major source of competitive advantage in other mergers of automakers. Although the common use of parts between Mercedes and Chrysler was planned to provide important synergy effects, the weakened financial condition of Chrysler avoided important progress and benefits in this aspect. Concerning the idea to share parts between Chrysler and Mitsubishi, executives expressed concern about losing the identity through sharing of parts and too much outsourcing but faced strong pressures to cut costs (Vlasic/Stertz, 2001; Foudy Jr., 2001).

Mercedes competitive supplier strategy, in order to introduce the latest innovations into its cars, is built around forging links with the leading supplier firms, like Bosch, Siemens Automotive, Mahle, and Hella, for instance. In Germany, many of these firms are as old as the industry itself, especially those centred in the Stuttgart area around Mercedes. Besides, there is a strong mix of global firms like Siemens and Bosch and medium-sized ("*Mittelstand*") companies. These firms can produce high quality components and have access to the latest technologies, creating innovations that set vehicles apart, e.g. anti-lock brakes for instance. In contrast to Toyota's model, Mercedes got no exclusive rights to technologies from suppliers. Even if Mercedes worked jointly with suppliers or helped fund their research technology, both realize for the investments to pay off for the supplier, the supplier needs other customers to recoup its investment. Otherwise, the prices charged by suppliers would be prohibitive. Short periods of exclusivity (1-2 years) are often negotiated before the supplier is allowed to sell the new components globally. This offers Mercedes only a slight technological lead, but given the slow changes of models it is more or less a question of brand image to be the first to market with some new innovation.

Daimler's embrace of shareholder value changed also the firm's relationship with one of its most important stakeholders: the company's employees. Mercedes, one of Germany's oldest and most established companies reduced its workforce by about 35,000 through various means in the early 1990s.

In the early 1990s, the income statement of Daimler-Benz was substantially unhedged, with a strategic imbalance between costs (incurred largely in Deutschmark) and revenues (received in a variety of currencies, including the US dollars). This exposed the company to considerable foreign exchange risk over the long term. Recent strength in the Deutschmarks had eroded profit margins, convincing management of the need to source more costs offshore. This required closing several German plants and reducing German employment.

Where firms traditionally outsourced under half of their content, by the year 2000, they were outsourcing as much as 80 per cent for some models. Besides, the opening of the former East Germany and the rest of Eastern Europe created a new potential source of competing low-cost labour for German unions, and concerned about currency exposure, Mercedes moved to open production facilities in the US. Daimler's Jürgen Schrempp, who owed his position only to the opposition of labour to a contender, commenced the new era of "shareholder value" neglecting one of its key stakeholders – its employees. Under Schrempp, Daimler reduced the number of units from 35 to 23 and reduced Daimler's payroll by 63,000 workers through divestures. His demand for a 12 per cent return-on-capital target reinforced the message that divisions which could not perform would be sold-off or closed. While strong sales of the Mercedes brand and expansion into new model areas had kept up demand, the rest of the Daimler workforce shrank under these divestments in the 1990s.

In fact, even the powerful Deutscher Gewerkschaftsbund (DGB), a German national union confederation, and the IG Metall, the powerful steel workers union representing labour in the automobile sector (leading national wage bargaining in a pattern-setting agreement that other sectors follow) could not withstand the augmenting redundancy of labour due to economic pressure form the global market for products and services (Bradley, 2004). As the low overlap in models of Daimler and Chrysler promised that there would be no redundancies from the merger, German labour even offered one of its supervisory board seats to the President of the American automobile union United Auto Workers (UAW).

The increased size and international orientation of DaimlerChrysler's new board affected its labour relations as well. At the board level, informal personal communications with workers' representatives remained strong, but workers' representatives at times went into meetings where shareholders' representatives had already decided their position. Within the company, the increased size and the centralization of some decision-making and other areas had left workers at the plant-level expending 80 per cent of their time just getting basic information (Daimler-Benz former senior manager, interview, October 2006).

Works councils continued to be successful at other functions like coordinating among plants to insure that inter-factory competition for getting production did not lead to a spiral in wages and other standards (Jürgens/Krywdzinski, 2006). In fact, much of the labour relations of Mercedes were closely related to its location in Baden-Württemberg and its history as one of the largest and richest industrial firm in Germany. Baden-Württemberg is one of the oldest industrial regions in Germany with a long history of worker solidarity, which when combined with the financial strength of Mercedes and other established firms, had led it to play frequent role in the annual wage-pattern bargaining. The premium nature of the Mercedes brand and the high skill levels of workers have meant that wages are also among the highest in Germany. As a consequence, the Mercedes works council and IG Metall have been well organized and successfully pushed increases in wages. But they have also worked on protecting a larger set of labour concerns. For instance, the Mercedes works council focussed some of their efforts on humanizing work and experimenting with new forms of work organization. Mercedes had cooperated in these projects.

At the same time that Mercedes was espousing shareholder value from the mid-1990s, it was also moving forward with new experiments in work organization. It even moved to copy many elements of the Toyota production system and implemented a lean production system. However, it is difficult to link the changes in work organization with the general shift towards shareholder value.

In the crucial area of investment in training and education, several work councils argued Mercedes maintained a strong commitment. In repeated interviews with various levels of the works council at Mercedes, workers argued that the firm continues to invest heavily in worker training and that the company remains "a sought after employer" (Daimler-Benz former senior manager, interview, October 2006). At one plant, the firm was increasing resources for training as a larger number of workers were coming from apprenticeship training unrelated to metalworking (i.e. trained as bakers and hairdressers). The commitment of Mercedes to worker training remained high, as did the sense of security for the workforce. Though there have been occasional irritants, the only major rift came in 1996 after the government authorized a reduction in sick pay to 80 per cent of wages and Mercedes decided to try to implement this. The efforts quickly faltered. Mercedes capitulated and gave workers a major victory.

6.2 The market for talent

In the analysis of the market for "talent", I will firstly consider the global development of a market for talent and changes in the remuneration system for top management during the 1990s. Secondly, and more in particular, I will regard what kind of changes the traditional German management culture underwent in the 1990s. Finally, I will analyze in how far these tendencies changed the management structure and organizational culture of DaimlerChrysler.

6.2.1 A new "global" market for talent

The importance of top management's flexibility, strategic mobility, and financial performance has changed the way in which companies used to deal with their corporate elites and has led to the emergence of a 'secondary labour market' for top managers and specialised scientific or technical personnel (Allaire/Firsirotu, 2004; Solimano, 2006). Headhunters and recruitment agencies supply companies with highly qualified human resources, which used to be developed internally by most of the companies (Finlay/Coverdill, 2003).

In Anglo-Saxon economies, the recession in between 1981 and 1982 seems to have been a turning point in labour relations. A great number of companies, being under pressure from competitive product and service markets, decided to rapidly lay-off major parts of their personnel in order to respond to the economic slow down.

Although many companies tried to reassure their employees, especially the middle management, after the recession that employment security has been re-established, most of the employees and managers knew by then that 'employment security' depends principally on their value on the market for "talent" (Allaire/Firsirotu, 2004).

Political measures supported inter-firm mobility, integrating a universal social security and a 'transferable' pension system. Furthermore, also geographical mobility is supported by the state, eliminating more and more regional employment barriers between provinces and national employment barriers between nation-states. Besides, the evolution of values among the people, especially in Anglo-Saxon countries, has converged from the importance of institutionalized security and loyalty towards the employer, towards the importance of personal 'autonomy' and 'entrepreneurship' at the work place (Allaire/Firsirotu, 2004).

6.2.2 *Performance-orientated management remuneration*

Another aspect of the new market for "talent" is the variable remuneration[37] of managers. Since the 1980s share option plans[38] have become an integral part of top management remuneration in the USA. Soon their importance exceeded by far the one of basic pay. In the shareholder-value-oriented US economy the introduction of stock option plans for manager was widely welcomed and accepted by financial

[37] The total executive compensation is composed of: basic pay, bonus pay and additional share options or their economic equivalent (SARs, accretion rights, etc.), which leads to the following formulae: *Total compensation* = basic pay + boni + option rights. Basic pay and boni are considered as the total cash value compensation (Adams, 2002).

[38] A share option plan is understood as an agreement between a company and an obligee on the remuneration via options on the company's corporate shares. The period in which the options may be exercised begins with the ending of the retention period. The subscription price is the amount to which the obligee has to buy one corporate share, exercising his share option. The fair value is defined as the value of one share option, representing the potential present profit in the case of exercise. In other words, it is the (market) value to which the option could be traded on the capital market. The intrinsic value embodies the amount to which the present stock price exceeds the agreed subscription price. In the case that the stock price is lower than the subscription price the intrinsic value is zero. The intrinsic value is the value that the obligee would ascribe to a share option, if he had to decide at once about its exercise. At the end of the maturity of the option, the intrinsic value represents the value of the option (Adams, 2002).

experts and the general public. According to the prominent agency-theory, performance based remuneration would serve to align the interest of managers with the interest of shareholders, including minority shareholders (Eisenhardt, 1989; Fama/Jensen, 1983; Jensen/Meckling, 1976). Perry and Zenner (2000) have identified quantitative indicators of the changes in the USA during the 1990s:

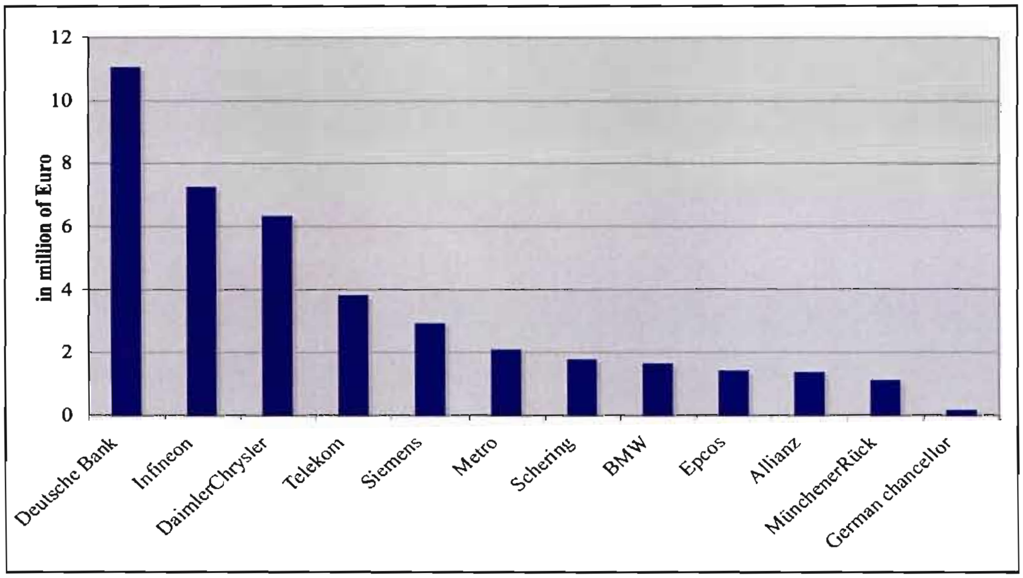
- the Civilian Employment Cost Index rose by 20 per cent in the six years from 1992 to 1998;
- the Consumer Price Index rose by 16 per cent in the same period;
- the median of the basic pay for the CEOs in the 500 largest US companies (S&P 500) increased by 29 per cent to US$ 811,000;
- the median of the bonus rose by 99 per cent to US$ 750,000;
- and the median actual cash value of the granted options rose by 335 per cent to US$ 1.6 million.

Bebchuk, Fried, and Walker (2002) prove that without the increase of share option plans, the CEO remuneration must have increased about over a million dollar in cash. The authors presume that this cash increase would have evoked a strong resistance among shareholders and even the resistance of the US government, which determined in the year 1993, that "not performance-based remuneration" exceeding one million dollar for the CEO and the company's four best paid employees, would be excluded from tax deductibility. Therefore, the three researchers conclude that share options have served as a way to hide excessive top management remuneration. Moreover, Bebchuk, Fried, and Walker (2002) have also demonstrated empirically that performance-based top management remuneration does not always reflect itself in an increased share price of the studied companies.

In the 1990s, European management remuneration saw a corresponding increase to the USA in executive compensation being based on share option plans and variable bonus pay. The management pay linked to stock performance led to a, beforehand, unthinkable high level of management remuneration in Europe. While in former times wealth in such dimensions was acquired only as the result of successful entrepreneurship over many generations, now executive managers were able to gather riches in a few years.

Traditionally, especially in stakeholder-value-based economies like Germany, managers were remunerated according to fixed financial performance indicators and the prevailing compensation difference between the salary of an average German worker and a German manager was not too great and thus still accepted and understood by the German public. The following figure shows the estimated remuneration per board of management member, including basic pay, bonus pay and the economic value of additional share options, for several German companies and the German chancellor in the year 2000.

Figure 6.6 Estimated German management remuneration (per board of management member in the year 2000)



Source: Adams (2002: 9).

However, the figures are only estimated in a study provided by Adams (2002), as German companies were not obliged to publish detailed information on the remuneration of the board of management members until the year 2006.

The Deutsche Bank, Infineon, and DaimlerChrysler, which are no longer influenced by one major shareholder at the end of the 1990s, pay their managers a high and strongly performance-based remuneration, including an expensive stock option plan, to align the interest of managers with the interest of dispersed shareholders. Companies, like BMW, that still have major shareholders, like the Quandt family in the case of BMW, limit the remuneration of managers via stock options and align their interest with the interest of the company's managers by taking direct strategic influence on the board of management.

6.2.3 Changes in the German management culture

Being part of a traditionally stakeholder-oriented economy, German managers contend with strong voice from concentrated owners and banks, as well as employees and unions. Management always used to face a dual pressure for both long-term profit maximization and employee utility (Aoki, 1988). Thus, the traditional management culture used to be highly consensus-oriented. Interests had to be negotiated in shifting coalitions, which involved patterns of horse-trading, issue linking, and package deals between different groups of management (Jackson/Höpner/Kurdelbusch, 2004). Several institutional features making up the social world of German management supported this consensus orientation, which began to break up in the early 1990s:

- Management careers tended to follow functional specializations, even within the management board. Educational backgrounds in science and engineering dominated the highest positions, the so-called German "Technocrats". Managers remained tied closely to their occupation (*Beruf*) and thus conspicuously lacked a generalist orientation. The strong tendency for technical functions to be incorporated into the management hierarchy also used to limit the relative importance of financial considerations (Lane, 1993).

- Secondly, managerial authority tended to be rooted in technical competence rather than in supervisory or business-related skills. 'Management' was not so strongly set apart from other occupational groups in either educational background or forms of compensation. In fact, the productivist ethos of the business organization acted as an integrating mechanism, with strong focus on incremental technical innovation, high quality standards and build-up of long-term market share (Höpner, 2001).

- Thirdly, the legal principle of collegiality and consensus orientation in the German management board worked against a strong dominance of the President and balanced financial considerations with other management functions such as operations and personnel (Jansche, 1998).

- Fourth, moderately high rates of internal promotion and long management tenures helped to stabilize the long-term relations that top managers enjoyed with their suppliers, customers, other corporations, banks, and works councils. The limited role of the external labour market also favoured the orientation toward long-term profits instead of short-term success. Moreover, managerial compensation traditionally avoided high power incentives such as stock options (Kürsten, 2006).

Since the beginning of the 1990s, these traditional German management structures have been undergoing an extensive change toward a greater finance orientation and away from the traditional science and engineering focus. This shift is symptomatic not only for shareholder demands, but the internationalization of managerial labour markets and the growing encounter of German junior management with Anglo-American management cultures.

In his study, Höpner (2003) collected information on the careers of all 90 top managers who were chief executives in the 40 biggest listed industrial corporations in Germany during the 1990s. A few findings on the development of the career and education of top managers in the 1990s can be summarized:

- There was a strong trend towards further professionalization. The share of chief executives without higher educational training declined from just under 14 per cent to zero per cent in 1998 and 1999. The share of top managers who went through the German apprenticeship system was in decline (from 30 per cent in 1990 to 15 per cent in 1999).

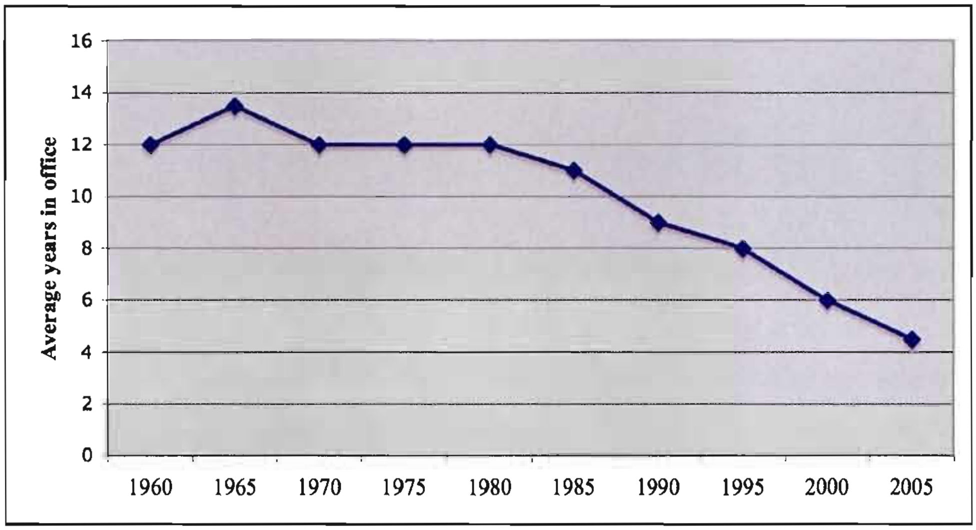
- The role of the external labour market was also clearly rising. In 1990, 17 per cent of the observed top managers were recruited from outside; in 1999, the percentage rose to more than 35 per cent. As a result, the role of in-house careers has been declining since the mid-1990s.

- The percentage of top executives who could be classified as financial experts with experience working in the financial division was rising. 39 per cent of chief executives have studied economics, 24 per cent have trained as lawyers, and 32 per cent have studied natural science or technical subjects. Comparing these data with information on the 1970s (Poensgen, 1982) suggests a strong decline in the role of natural science and technical subjects.

- The average time in office among top managers was in dramatic decline since the early 1980s.

The following figure illustrates the decreasing average time in office of German CEOs in Germany's 40 largest corporations. It is important to notice that the average years in office of CEOs in Germany have been decreasing since the 1960s, but the decisive rapid decline did not start until the early 1980s. In the period between 1980 and 2005 the average years in office declined from 13 years in 1980, to 9 years in 1990, to 7 years in 1996, and finally even to less than 5 years in 2005.

Figure 6.7 Average years in office of German CEOs: 1960-2005



Source: Adapted from Höpner (2001: 49) and FAZ (2006).

These changes in the 'social world' of German top managers help explain why shareholder value strategies enjoy an increasingly high reputation among managers in the late 1990s. The changing social background and career incentives for management influence their perception of corporate goals. The emergence of a highly competitive labour market for managers requires the application of measurable performance criteria. At the same time, the willingness of supervisory boards to fire top managers is on the increase.

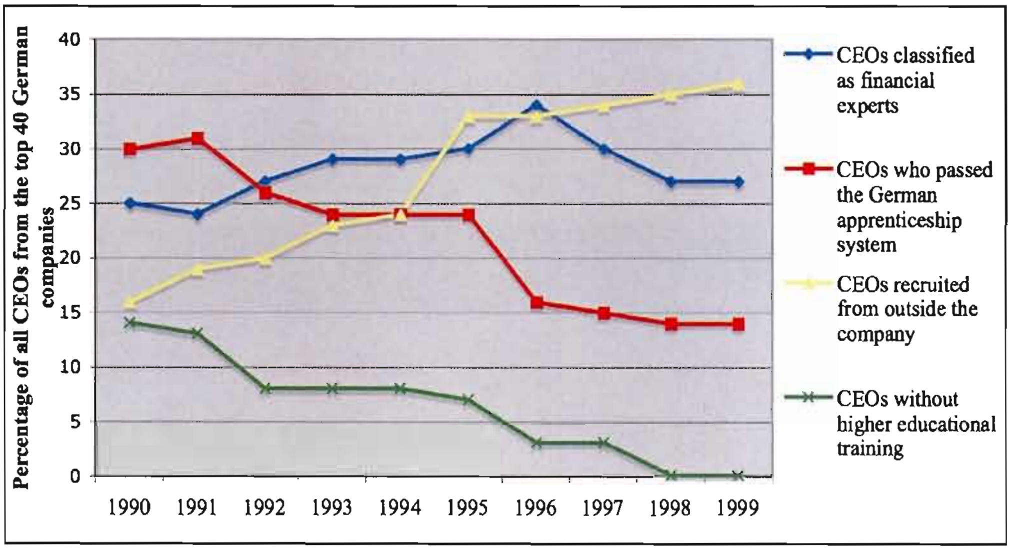
In the 1990s, several chief executives were forced to retire from office because of bad performance and the resulting crises of confidence in the supervisory board, for example Horst W. Urban (Continental), Anton Schneider (Deutz), Bernd Pischetsrieder (BMW), Heinz Schimmelbusch and Heinrich Binder (Metallgesellschaft), Bernhard Walter (Dresdner Bank), Dieter Vogel (ThyssenKrupp). Beyond this, it can be argued that the increased importance of Financial Economics in education and career favours the willingness to utilize financial indicators (Aldrighi, 2002).

In his study "Corporate Governance in Transition: Ten Empirical Findings on Shareholder Value and Industrial Relations in Germany" Höpner (2001) investigates the changes in careers of CEOs in Germany's top 40 companies.

At the beginning of the 1990s most of the CEOs passed a German apprenticeship system, were recruited from inside the company, and often had a more technical educational background. During the 1990s things changed. Today most of Germany's top CEOs are managers with financial expertise recruited from outside the company, who have passed a higher educational training, whereas less have passed the German apprenticeship system. This development reflects an important change of values within the German organizations. Traditionally it was important for German CEOs to have gained legitimacy among the company's workers and within the company through long years of hard work from the bottom, as apprentice, to the very top of the company, as CEO. The knowledge about the company and a technical expertise were generally more important than general managerial or financial skills.

Fundamental changes in the environment of the company, in particular in the market for capital and in the market for products and services, led to a change in the German market for "talent". The importance to improve financial results to satisfy international capital markets and the need to restructure companies in a way that they can compete in globalized markets for products and services opened the door for CEOs from the external market for "talent", who provided financial expertise and managerial knowledge and skills to drive organizational change.

Figure 6.8 Careers of CEOs in German corporations: 1990-1999



Source: Höpner (2001: 49).

6.2.4 The impact on the DaimlerChrysler Corporation

Pay and equity, a highly contentious issue in Germany, moved also to the forefront of the Daimler-Benz Corporation issues in the late 1990s. Daimler's CEO Jürgen Schrempp had earned criticism for his aggressive stance in favour of bringing German executive pay in line with American practices, which are both higher and more performance-related. Daimler had moved to increase the use of stock options for key managers and performance bonuses for its workers. One of the biggest concerns was containing the differences in executive pay.

Table 6.2 Board of management and CEO remuneration at DaimlerChrysler[39] (not including bonus pay and stock options)

Year	Remuneration of the members of the Board of Management (for the whole year)	Average remuneration per Board member (for the whole year)	Estimated Remuneration of the CEO (for the whole year)
1995	11.9 million DM (≈ 6.07 million Euro) for the ten members of the Board	607,000 Euro	1.6 million DM (≈ 816,326 Euro) (for the last eight months from 05/95 and 12/95)
1996	14.0 million DM (≈ 7.14 million Euro) for thirteen members of the Board	549,230 Euro	2.0 million DM (≈ 1.02 million Euro)
1997	20.0 million DM (≈ 10.2 million Euro) for eleven members of the Board	927,272 Euro	3.32 million DM (≈ 1.69 million Euro)
1998	41.0 million Euro for seven-teen members of the Board	2,411,764 Euro	5.54 million Euro
1999	55.4 million Euro for eight-teen members of the Board	3,077,777 Euro	5.82 million Euro
2000	52.6 million Euro for four-teen members of the Board	3,757,142 Euro	7.0 million Euro
2001	22.0 million Euro for eleven members of the Board	2,000,000 Euro	3.66 million Euro
2002	50.8 million Euro for thirteen members of the Board	3,907,692 Euro	7.24 million Euro
2004	31.6 million Euro for twelve members of the Board	2,633,333 Euro	4.86 million Euro
total	**276.81 million Euro**	13,963,518 Euro	37.65 million Euro

Source: Grässlin (2005: 232).

Before the merger, Chrysler CEO Bob Eaton earned US$15 million (≈ 10.94 million Euro) to Schrempp's 1.69 million Euro. Chrysler CEO Eaton also had stock options worth between US$50 million (≈ 36.46 million Euro) and US$100 million (≈ 72.92 million Euro) (Grässlin, 2005). Pay differentials among executives in both firms at other levels were also large. Chrysler, like other American automakers, had

[39] The remuneration of the Board members has been published in Daimler-Benz, later DaimlerChrysler, annual reports. The remuneration of the Daimler-Benz, later DaimlerChyrsler, CEO is only estimated according to the average remuneration of each Board member by the author Jürgen Grässlin.

moved toward compensating workers with annual bonuses linked to the performance of the automaker. In 1999, payments to Chrysler workers averaged $8,100 million (≈ 5,906 million Euro) vs. $1,320 (≈ 963 million Euro) at Mercedes which is slowly moving to increase the variable element in worker pay). German workers argued unsuccessfully that the company should shift toward a uniform bonus system worldwide. On the other hand, they were relieved when the following year they still received an average of $1,470 (≈ 1072 million Euro) for record profits at Mercedes, during a time where these profits were being swamped by massive losses at Chrysler in 2000 (St. Jean, 2004). The merger with Chrysler brought these issues to the forefront, but German labour did not object. This was a major firm strategy with the support of its shareholders.

As a manager personality, Jürgen Schrempp broke with many German management traditions. Although his educational and professional background was technical and based on his internal career at DaimlerChrysler, Schrempp embraced the financial and business-oriented ideas produced by the American model of shareholder value.

Jürgen E. Schrempp, born on 15 September 1944, in the south-western German university town of Freiburg, always sought to surpass his limits. He climbed the Italian Alps with Reinhold Messner and played chess with Gary Kasparov, working out every morning, chain-smoking, and playing the jazz trumpet, drinking, and singing until late into the night (Vlasic/Stertz, 2000). Schrempp's father was captured by the Soviet army in 1944 and held as a prisoner of war until 1949, when Schrempp was five years old. The family of two parents and three boys lived in a small apartment while the father earned a meagre living administering college admissions tests at the University of Freiburg. At age 15 Schrempp dropped out of high school to take a job as an apprentice mechanic at a local Mercedes-Benz dealership. At age 20 he married his first wife, a high school student named Renate, who recalled being overwhelmed by Schrempp's expansive personality. In 1964

Schrempp enrolled in the University of Applied Science at Offenburg, Germany, supporting himself and his wife not only by working as an auto mechanic but also by playing trumpet in a band at weddings and other events. Upon receiving his mechanical engineering degree in 1967, he accepted a job offer to work as a sales representative for Mercedes-Benz, the most notable subsidiary of Daimler-Benz.

Figure 6.9 Jürgen E. Schrempp and his career at Daimler-Chrysler

Biography of Jürgen E. Schrempp:

- Born as a son of a university clerk in Freiburg (15/09/1944)
- Joined as an apprentice motor mechanic Mercedes-Benz (1967)
- Attended university to train as an engineer (1967-1970)
- Returned to Daimler and held various posts (1970s)
- Appointed to management in the service division of Mercedes-Benz South Africa (1974)
- Appointed board member responsible for engineering at Mercedes-Benz of South-Africa (1980)
- President of Euclid, Inc., a 100% subsidiary of Daimler-Benz in Cleveland, Ohio (1982)
- Vice President of Mercedes-Benz of South Africa (1985)
- Chairman of Daimler's aerospace subsidiary, Dasa (1989)
- Replaced Edzard Reuter as Chairman of Daimler-Benz (1995)
- Jürgen E. Schrempp surprisingly declares that he will resign as DaimlerChrysler CEO on the 31 December 2005, Dieter Zetsche becomes his successor (28 July 2005)

Source: Adapted from Vlasic/Sterz (2000).

After having gained the attention of the upper management of Mercedes-Benz, he was sent to South Africa not for punishment but for a chance to expand his corporate horizons. In South Africa, Schrempp drove hundreds of miles a day, visiting manufacturing plants, auto dealers, and consumers. He became the chief salesman for Mercedes-Benz's South African operations. During 1974–1982 he was an outspoken opponent of apartheid, treating all races equally in pay, benefits, and opportunities for advancement. His denunciations of apartheid came to the attention of the top management of Daimler-Benz, who selected Schrempp to head the operations of Euclid, a subsidiary that manufactured heavy trucks in Cleveland, Ohio, in the United States (Grässlin, 2000).

During his tenure as Chairman of Daimler-Benz, Schrempp proved to be a master of boardroom politics, with the ability to make decisions quickly and the willingness to take risks. He called these decisions „digital" decisions: uncompromising yes/no determinations that a computer might make. Jürgen Schrempp sought to be an important player on the world stage, and he hoped to change the course of history. As CEO of Daimler-Benz he tried to make his company and himself part of the new global economy that he thought was arriving in the late 1990s. Believing that the most successful companies of the future would transcend cultures and national boundaries, he strove to make sure that his corporation would not be left behind to be remembered only in history. To keep Daimler-Benz strong, he chose to opt for a bold restructuring of the company and daring acquisitions that would make the company a universal presence throughout the world and a leader in every kind of auto manufacturing. Thus, he was responsible for significant restructuring and portfolio rationalization at Daimler-Benz, returning the company to profitability in the year 1996, just one year after having started his work as Daimler's CEO and Reuter's successor, in 1995 (St. Jean, 2004).

Schrempp broke German business taboos through his tough labour negotiations, ordering huge lay-offs to try to turn the company around. His aggressive American style management practices and his focus on shareholder value were not popular in many German business circles and especially not popular among the German public. Schrempp characterized his methods stating, "Nobody will ever spread a rumour about my having been brought up at a girls' boarding school." (Grässlin, 1999: 69). Schrempp was a charismatic leader who enjoyed being the centre of attention. He relied heavily on his magnetic personality to secure the loyalty of management and labour alike and to push forward his business initiatives. He was called "Neutron Jürgen" in the German press, an allusion to Neutron Jack Welch, who earned the nickname because, like a neutron bomb, he left buildings standing while eliminating personnel at General Electric. While head of Deutsche Aerospace, Schrempp had cut operations that were losing money, most notably Fokker, Holland's aerospace company, and while leader of Daimler-Benz he had cut subsidiaries, earning the "neutron" nickname. But the ruthlessness implied by his nickname was in some ways undeserved; he usually agonized over his decisions to cut jobs, often thinking not in terms of profits and losses but in terms of what would benefit workers and customers.

Schrempp was often compared to American business leaders because of his boldness. He wanted to change the world, and he was a German patriot who wanted Germany to remain a great economic power. Because of this vision, he often scorned such short-term concerns as stock market gains and losses to emphasize a long-term outlook that extended beyond his own lifetime. His insistence that Daimler-Benz research experimental power supplies, especially fuel cells, was part of his vision for the future. In the short-term, these alternative power supplies represented financial losses for the company, but Schrempp hoped that over time they would keep his company strong and healthy as petroleum-powered vehicles became obsolete.

A driven and charismatic individual Schrempp also believed that business always comes before personal or career considerations. When he announced the end to his 35-year marriage in 1999 he explained it by saying he wanted to concentrate on making the merger a success. In an interview with a Dutch newspaper Schrempp stated, “This company needs me more than I need the company. Do you think that’s arrogant? I can tell. Write it down.” (Rothman/Spiegelberg, 1998). Schrempp valued decisiveness over protracted consensus building. “He’s very much a don’t waste my time guy“, commented Hypo Bank auto analyst Thomas Aney. Schrempp counted GE Chairman Jack Welch among his business heroes.

The composition of Schrempp's closet circle of advisers, his so-called "kitchen cabinet"[40], composed of Eckard Cordes, a mergers and acquisition expert, Rüdiger Grube, who plotted corporate strategy at DASA, and Claudia Deiniger, a former secretary at DASA who became his personal assistant, as well as his friendships with American shareholder-value-oriented managers, such as Jack Welsh, may be understood as another evidence of Schrempp's idea and aim to change traditional German business values at DaimlerChrysler from a traditionally stakeholder- towards a more shareholder-oriented model.

The choice of advisers was a clear sign of Schrempp's shareholder-value-oriented management style. However, although Schrempp's personal values seemed an important factor for DaimlerChrysler's shift towards the shareholder value model, the pressure from global capital markets and the global market for automobile products and related services were even more decisive factors. Moreover, the pressure from these markets enabled Schrempp to develop his vision of shareholder value at DaimlerChrysler, protected by the chairman of the supervisory board and personal friend Hilmar Kopper (Deutsche Bank), who shared his vision of shareholder value.

When Jürgen Schrempp became CEO at Daimler-Benz in 1995, he immediately initiated cost-cutting measures by selling the biggest loss-making divisions and cutting the staff at corporate headquarters. His goals were "transparency, honesty and immediate disclosure of information" (Daimler-Benz, 1996). He set a high goal for Daimler's diverse operations: a return on capital of at least 12 per cent, coupled with a requirement to be as profitable as international rivals. Besides, together with Schrempp, a whole bunch of young international MBA graduates walked through the doors of the corporate headquarters in Stuttgart-Möhringen (Daimler-Benz former senior manager, interview, October 2006) to clean up the so-called "bullshit castle". Traditional consensus oriented structures were broken up by Schrempp' s dominant

[40] See chapter V, in 5.2.2.2 "The merger of Mercedes-Benz and Daimler-Benz".

board position, backed up by the chairman of Daimler-Benz's supervisory chairman Hilmar Kopper from Deutsche Bank[41].

Although Daimler-Benz openly tried to embrace shareholder value principles in the 1990s, the company, ironically, became the subject of a lawsuit by an activist shareholder group that claimed company officials for the deliberately misled of investors into expecting a profit in 1995. In fact, the company sustained a DM 5.7 billion (2.91 billion Euro) loss (Ball, 2004). In May 1996, it was disclosed at the annual shareholders meeting that management was in fact aware of the risk before the profit prediction was made. Shareholders may have gone without a dividend in 1995, but the members of the management board got a bonus of about DM 600,000 (306,122 Euro) each for the "great burden they bore" in that year. German accounting principles, unlike American ones, did not require that individual salaries be revealed, but altogether the eight board members received nearly DM 11 million (5.61 million Euro) in salary for the year until the year 2006. Shareholders were not pleased (Grässlin, 2005).

6.3 The market for capital

The analysis of the market for capital considers the shifts and changes in the German capital market during the 1990s and their effects on the management and corporate governance system of DaimlerChrysler.

6.3.1 Liberalization of international financial markets

Already since the 1980s, the financial scene has been rapidly and hugely modified around the world. The relentless harsh competition among financial

[41] The Deutsche Bank AG itself aggressively introduced performance-oriented top management remuneration in form of share option plans in the 1990s. The interests of the DaimlerChrysler management board and the dominant shareholder Deutsche Bank were thus coherent on the issue of new methods of variable management compensation.

institutions and the broad and intensive deregulation of their activities in the market for capital have promoted the continuous integration and liberalization of international financial markets (Aldrighi, 2002).

In a great number of countries funded pension schemes have expanded at an enormously fast pace, fostering capital markets and non-bank financial intermediaries supplying this type of contractual savings. At the same time, individual and institutional investors have been increasingly aware of the returns from the broad range of alternative investment instruments – made available by the deregulation of financial markets together with the reduction in transaction costs resulting from the spread of information technology. In Europe, the launch of the European single monetary currency has been another leading force affecting national financial markets and institutions to open their national capital markets for foreign investors (Allen/Gale, 1995).

In Germany, the liberalization and internationalization of the German financial market, which was expressed in the general increase of market-capitalization, as well as the augmented international share listing of German companies, caused an important shift in the traditionally concentrated share ownership structure towards more dispersed ownership and increased the number of institutional investors in the German capital market (Kogut/Walker, 2001; Beyer, 2003; Jürgens/Naumann/Rupp, 2000). Prowse (1994) concludes that these changes did not occur evidently until the mid-1990s. Throughout the mid-1990s, however, the mentioned capital market pressures led already continually to the dissolution of the so-called *"Deutschland AG"*. In fact, this model of a strong national network of banks and corporations characterized by a concentrated insider ownership structure has functioned well for decades providing a stable platform of growth for German companies (Karsch, 2000). Therefore, it is comprehensive why Germany maintained and tried to maintain this stable structure for as long as possible. However, in the mid 1990s international capital market pressures and Germany's integration in the

European financial market forced German economy to open itself to international capital market standards. A 1996 report by the California state pension fund (CalPERS) reports that:

> "Germany has recently been experiencing an economic slowdown causing many people to reassess the old ways of doing. [...] The growth and liquidity of the international capital markets has made the cost of German capital harder for German executives to ignore and caused more companies to begin looking toward cheaper international sources. As German corporations attempt to access the international capital markets, they are finding that the US and UK institutional investors that are the predominant source of this capital have certain expectations of management. " (CalPERS, 1996).

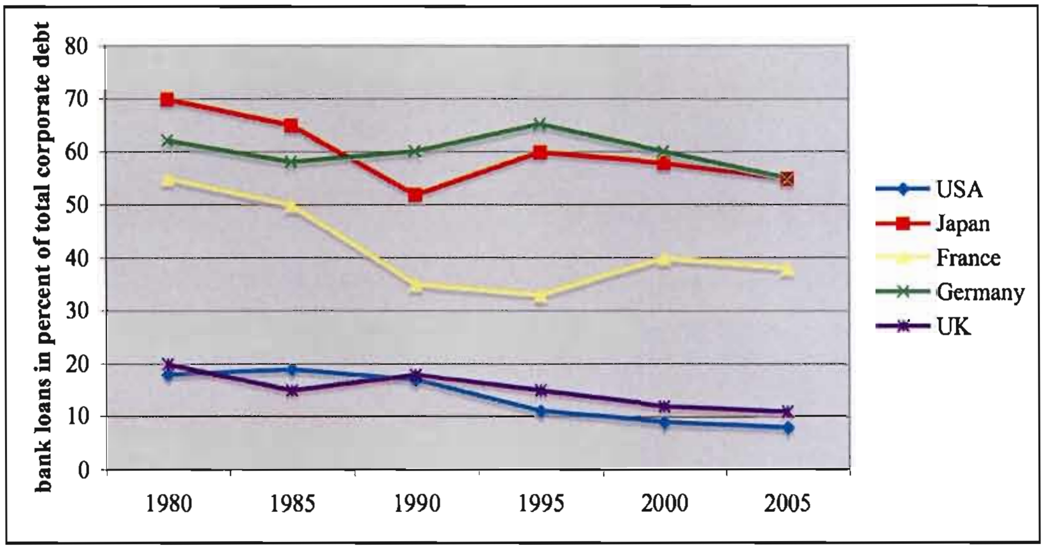
Consequently, the changes in the German market for capital, which evolved in the context of the general internationalization of financial markets, had a significant impact on the prevailing management and corporate governance system in Germany.

6.3.2 The changing role of the German banks

Traditionally, the big banks in Germany have been the incarnation of the proverbial "*Deutschland AG*", being the spider in the centre of the web of power and influence in the German economy for several decades. Until the end of the 1990s, the major German banks: Deutsche Bank, Dresdner Bank, and Commerzbank, had their representatives sitting on supervisory boards in more than four hundred major German companies. The supervisory boards had the essential duties to hire and fire the management board and approve or deny major financial decisions. Together, the supervisory and the management board provided a stable consensus-orientated system of checks and balances (Karsch, 2000).

The close ties between the major banks and industry had begun already in the last century. When large amounts of privately held capital did not yet exist, German banks were founded to finance industrialization. In the immediate post-war years bank finance was about the only source of start-up funding and working capital (Mole, 1990: 33).

Figure 6.10 Corporate debts in form of bank loans in relation to the total corporate debt: 1980-2005



Source: Adapted from Tyrell (2006: 3).

German banks traditionally used to be "universal banks", which combine the roles played in other countries by a variety of different financial institutions: commercial banks, investment banks, merchant banks, savings banks, stockbroker and institutional investors (Mole, 1990: 33). The power of these banks lies in the size and diversity of their shareholdings in Germany's major companies. Typically they hold shares for the long-term, being interested in the financial well-being of the company and not only in short-term profits (Regan, 1992).

On the one hand this system has been criticized for giving the banks too much power, however, on the other hand it has provided the German industry also with considerable stability. Therefore, the supervisory and management boards in the German publicly traded corporations have not had to deal with many of the problems that are all too frequent in the US: the savings and loan disaster, government bailouts of large banks, insider trading, leveraged buyouts, hostile takeovers, or junk bonds (Glouchevich, 1992).

Besides, Germany's banking system has been very effective in protecting publicly traded companies against hostile takeovers. German banks could not only vote the shares they own in a company, they were legally permitted to vote the shares they hold for their customer; thus controlling as much as 60 per cent of the voting power in some companies (Drucker, 1995). As a result, hostile takeovers are nearly impossible because they can simply be blocked (Hill, 1994).

The role of the German banks only began to change, when competition from international banks and developing financial markets became more intense in the late 1990s. Their first reaction was to adopt cost-cutting measures in order to offer more attractive financial products to customers. Even in a country where the government considers job preservation a top priority, the large commercial banks entered into negotiations with their works councils to begin employment reductions (Keltner, 1995).

More importantly major banks began to reduce or eliminate industrial shareholdings in companies with economic problems from their portfolios (Höpner, 2001). For example, at the end of the 1990s, Deutsche Bank commenced to trim its large holdings in Klöckner-Humboldt-Deutz, in the transportation group Daimler-Benz, and in the leading construction company Philipp Holzmann. These actions obviously appealed to shareholders, because Deutsche Bank stock rose almost 1% on news of the possible portfolio divestitures (Randlesome, 1994). As a matter of fact, the losses many companies had incurred during the 1990s had also resurrected the criticism of the German system of corporate governance, in which banks have extensive connections to industry in the form of shareholdings as well as representation on the company's supervisory boards, in general.

As the European Community's legislation continued to loosen regulations, German banks began to rethink the way they did business and become more dynamic and competitive (Glouchevich, 1992). Basel I[42], in force since 1992, and Basel II[43], in force since 2006, have had a strong impact on German banks, imposing new "international" standards on minimum capital requirements, supervisory review processes, and enhanced disclosure. For example, the new 25 per cent capital requirement for stock investments, in Basel II, obliges German banks to reduce the risk of their stock investments by financing a higher amount of security capital for each shareholding (Beekmann: 2004).

Consequently major German banks, like the Deutsche Bank (DB), have decided to undertake a radical change in their corporate strategy: from being a German "universal bank" to becoming a specialized internationally competitive investment bank. In 1998, DB set up its subsidiary DB Investor to manage all of its industrial holdings. DB Investor pressures managers of firms in which it holds equity stakes to boost profits, sells equity stakes as soon as it can be done profitably, and buys equity stakes that promise to yield significant profits through resale within a short period, i.e. less than four years (New York Times, 1999).

Along with reducing their holdings, banks have been curtailing their traditional role in corporate governance, i.e. the institutions and practices that regulate or control

[42] **Basel I** is the term which refers to a round of deliberations by central bankers from around the world, and in 1988, the Basel Committee (BCBS) in Basel, Switzerland, published a set of minimal capital requirements for banks. This is also known as the 1988 Basel Accord, and was enforced by law in the Group of Ten (G-10) countries in 1992, with Japanese banks permitted an extended transition period. Basel I is now widely viewed as outmoded, and a more comprehensive set of guidelines, known as Basel II are in the process of implementation by several countries (Deutsche Bank, 2007).

[43] **Basel II**, also called **The New Accord** (correct full name is the *International Convergence of Capital Measurement and Capital Standards - A Revised Framework*) is the second Basel Accord and represents recommendations by bank supervisors and central bankers from the 13 countries making up the Basel Committee on Banking Supervision (BCBS) to revise the international standards for measuring the adequacy of a bank's capital. It was created to promote greater consistency in the way banks and banking regulators approach risk management across national borders. The Bank for International Settlements (often confused with the BCBS) supplies the secretariat for the BCBS and is not itself the BCBS (Deutsche Bundesbank, 2007).

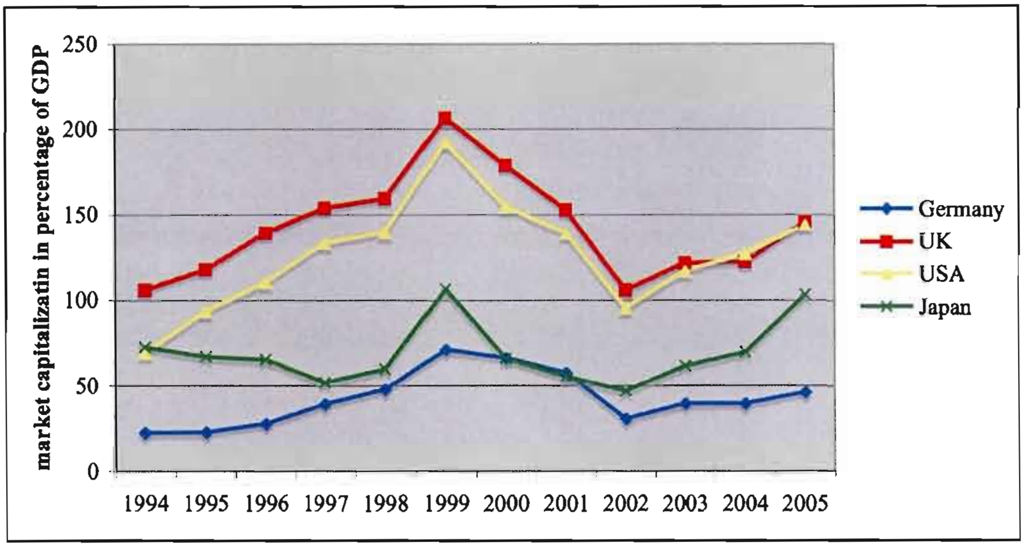
firm managers. In 1974 banks held 20 per cent of the supervisory board seats in the 100 largest firms; by 1993 this percentage had shrunk to 6.3 per cent (Lütz, 2002). Bankers have reduced also the number of supervisory board chairs that they control. The KonTraG law, from 1998, introduced greater restrictions on the ability of banks to influence firms through the proxy votes they control. For example, a bank that owns more than 5 per cent of another firm's equity may no longer automatically vote the shares in that firm held on deposit in the bank (KonTraG, 1998).

6.3.3 Increased market capitalization

The relative success of German industrial firms in self-financing, the perceived need to grow in size and scale, or the risk of being shut out of global competition and the desire of banks to move away from traditional financing have pressed German firms in the 1990s to tap more and more into international capital markets (Foudy Jr., 2001).

Between 1990 and 1996 the total number of domestically listed companies in Germany rose from 649 (23 per cent of the GDP) in 1990 to 680 (32 per cent of the GDP) in the year 1996 (Fukao, 1995). The stock market capitalization as a percentage of GDP rose by 39 per cent in this period. From 1997 to the middle of 2001 the number of Germans owning shares or mutual funds rose from 5.6 million to 13.44 million (i.e. 140 per cent). In western Germany 22.5 per cent of adults now own shares or mutual funds (in eastern Germany the figure is 15.4 per cent). Despite the market crash in late 2000 and 2001, this number continued to grow, although investors clearly preferred mutual funds to direct share ownership (DAI, 2001). From 1983 to 1996, an average of 16 companies went public *each year*; in 1998, 78 firms went public and 1999, 167 firms went public; the vast majority did so on the *Neuer Markt* (Hutter/Leppert, 2000).

Figure 6.11 Domestic market capitalization relative to GDP: A cross-country comparison between 1994 and 2005



Source: SEC (2006).

In contrast to the relationship between banks and a growing number of large firms, the relationship between banks and smaller firms remains more firmly rooted in long-term, lending based relationships. For example, during the 1980s and 1990s numerous regulatory reforms were adopted with the intention of encouraging small- and middle-sized enterprises (SMEs) to go public, but these efforts met with relatively little success (at least until very recently). Instead, German SMEs continued to rely heavily on conventional bank loans. There are several reasons for this, a primary one being the reluctance of SME owners to give up control over their firms. Also, accessing capital markets is usually more costly for smaller firms than bank loans, all the more so because German SMEs have been well served by a highly efficient commercial loan market (Sauve/Scheuer, 1999).

Since German SMEs have been reluctant to go public, but nonetheless were confronted with declining equity levels since the 1970s, German banks and policy makers satisfied this need to a considerable degree by "patching up" the old system through establishing and expanding the regulatory basis for private equity companies

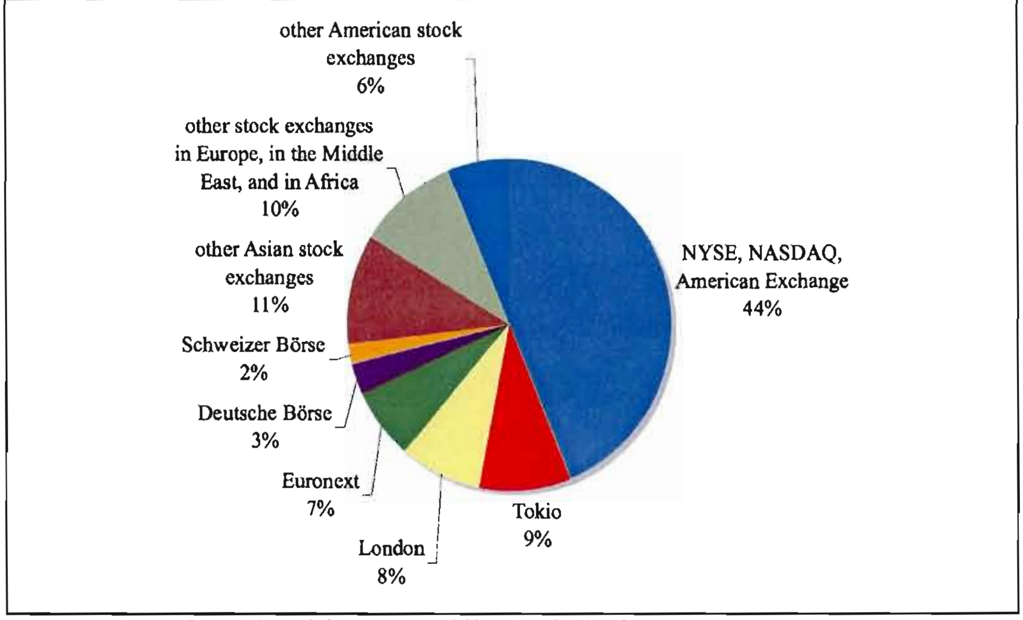
(*Kapitalbeteiligungsgesellschaften*). These companies have grown steadily since the early 1980s and played an important role in rebuilding eastern Germany as well. However, the role of private equity firms in Germany is still less important than in the USA or the UK. In Germany private equity firms have concentrated their activity on the German "Mittelstand" (medium-sized businesses) until 2005, whereas in Anglo-Saxon countries they have invested in major companies (Handelsblatt, 2006). However, recently private equity companies have begun to invest also in Germany's largest DAX 30 companies, which we will discuss further in the section about institutional investors in Germany.

6.3.4 International share listing of German firms

In the 1990s several large German firms moved toward internationalizing their investor base (and capital sources), and thus weakening domestic shareholder control and bank connections, by listing on the New York Stock Exchange. By going abroad and by attracting inward investment by foreign institutional investors, the shareholder base of numerous large German firms has become more widely dispersed and internationalized. In Germany, the internationalization of the national capital market has increased the importance of international institutional investors, e.g. pension funds and investment funds. The internationalization of the investor base of many large German firms (and the big three German commercial banks, too) is connected to a growing emphasis by such firms on shareholder value, i.e. managing the company so as to maximize return on equity (which manifests itself in share prices and dividends).

According to a study by the German stock exchange institute (*DAI*) 55 German corporations were listed at a foreign stock exchange in 2005. Most of these corporations have acquired besides their original listing in Germany one additional listing abroad. All together there were 117 foreign listings registered for the mentioned 55 German companies with foreign listings. The majority of German foreign listings can be allotted to European stock exchanges (SWX in Switzerland, Euronext in Amsterdam and Paris, LSE in London, etc.) (Glaum/Thomaschewski/Weber, 2005).

Figure 6.12 Share of stock exchanges in the world's market capitalization



Source: Adapted from Glaum/Thomaschewski/Weber (2005: 83).

During the 1990s, however, many German corporations started to list also at US stock exchanges, especially at the New York Stock Exchange (NYSE) and the National Association of Securities Dealers Automated Quotations (NASDQ), the world's most important stock exchanges in terms of market capitalization (44 per cent of the world's total market capitalization at the end of July 2005).

The majority of these companies listed as ADRs at US stock exchanges. Only DaimlerChrysler and the Deutsche Bank listed as common stock, which reflected the high importance of the US capital market for the two German corporations.

Table 6.3 German corporations listed in the USA (July 2005)

Company	Stock exchange	Form	Date of listing
Allianz AG	NYSE	ADR Common	Nov. 2000
Altana AG	NYSE	ADR Common	May 2002
Aixtron AG	NASDAQ	ADR Common	March 2005
BASF AG	NYSE	ADR Common	June 2000
Bayer AG	NYSE	ADR Common	June 2002
DaimlerChrysler AG	NYSE	Common Stock	Oct. 1998
Deutsche Bank AG	NYSE	Common Stock	Oct. 2001
Deutsche Telekom AG	NYSE	ADR Common	Nov. 1996
E.ON AG	NYSE	ADR Common	Oct. 1997
Epcos AG	NYSE	ADR Common	Oct. 1999
Fresenius Medical Care AG	NYSE	ADR Common	Sept. 1996
Fresenius Medical Care AG	NYSE	ADR Preferred	Nov. 1996
GPC Biotech AG	NASDAQ	ADR Common	June 2004
Infineon Technologies AG	NYSE	ADR Common	March 2000
Pfeiffer Vacuum Technol. AG	NYSE	ADR Common	July 1996
SAP AG	NYSE	ADR Common	Aug. 1998
Schering AG	NYSE	ADR Common	Oct. 2000
SGL Carbon AG	NYSE	ADR Common	June 1996
Siemens AG	NYSE	ADR Common	March 2001

Source: Adapted from Glaum/Thomaschewski/Weber (2005: 85).

6.3.5 Changes in the German ownership structure

The changes in the German ownership structure concerned both the composition and the identity of shareholders in Germany.

6.3.5.1 Majority shareholders

In the German system of "insider control", insiders – generally majority shareholders such as large banks, insurance firms, corporations and families – controlled the strategies and decisions of large German firms, relatively free of the influence of stock markets or small shareholders (Ziegler, 2000).

This tightly linked insider system meant that corporate actors typically responded in some collective fashion to common challenges as well as to challenges or problems facing an individual firm. The German system rested on the corporate *strategies* of these insiders. The strategy of large commercial banks, for instance, focussed on cultivating industrial development and competitiveness through a system of broadly negotiated industrial change (Zysman, 1983). Part of this strategy involved investment in maintaining strong networks (both capital and human) among larger firms and the cultivation of long-term relationships to corporate customers.

During the 1990s, capital market pressures (which derived from German banks selling unprofitable strategic investments in their share portfolios, the internationalization of the German financial market, and the increasing market capitalization of German firms) led to a larger dispersion of share-ownership and, thus, to an important decrease of the influence of majority shareholders in the German capital market.

6.3.5.2 Minority shareholders

At the end of the 1980s, the German stock market was still quite small, but it was growing. "German investors see risk, while the Americans see possibilities" (Wall Street Journal, 1986) explained the state secretary of the German Ministry of Finance in 1986, the weak development of the German financial market.

The German attitude towards the financial market did not change until the beginning of the 1990s. In 1987, only about 5% of the population owned stock. By 1993 the number of shareholders had grown to about 10% of the population in the west. Most of the newcomers active in the financial market were in their twenties and early thirties at that time, belonging to a generation that has not seen their inheritance diminished by war or hyperinflation (Randlesome, 2002: 70). The increasing interest in the financial market led also to an increasing interest in stock market influences and the way companies do business. For example, if listed stock companies are building reserves with long-term stability in mind or if they rather pay important dividends to attract shareholders and raise capital. This interest was new in the German business world.

The long absence of 'small' shareholders in the traditional German financial market is another important factor in the development of the financial market in Germany and can be considered as a reason for the small size of the financial market in Germany until the end of the 1980s. According to their long absence, minority shareholders have traditionally not been well protected in the German corporate governance system (Schmidt, 2004: 401).

German company law protects insiders, like employees and unions, more than outsiders, in this case minority shareholders. The German insider-oriented accounting rules of the HGB led, furthermore, to a lack of transparency, especially compared to outsider-oriented International Accounting Standards (IAS) or the General Accepted Accounting Principles (US GAAP) (Höpner, 2001: 10).

6.3.5.3 Institutional investors

Another important phenomenon can be discerned in the category of financial holders. In their study *Path dependence and financial markets: the economic geography of the German model, 1997-2003* Gordon L. Clark and Dariusz Wójcik (2004), investigated the changes in the share ownership structure in main industrial sectors in the 16 German *Bundesländer* (federal states). The two researchers revealed that during the 1990s, the share of banks remained tiny and that of insurance companies fell, whereas the share of other financial companies including mainly brokerage firms, venture capital, investment, and pension funds skyrocketed.

The following figure provided by Gordon and Wójcik (2005) compares the structure of foreign holdings by type of holder in the years 1997 and 2003. The increase of holdings owned by individual shareholders, non-financial companies, and other financial companies (including institutional investors), as well as the rather small number of holdings owned by banks and insurance companies, reflect the important changes in Germany's ownership structure.

Table 6.4 The structure of foreign holdings by type of holder

Type of holder	Number of holders		Number of holdings		Value of holdings (EUR million)	
	1997	2003	1997	2003	1997	2003
INDIVIDUALS AND FAMILIES	21	44	21	46	6927	8074
BANKS	6	8	6	9	1131	2536
INSURANCE COMPANIES	5	8	21	21	7591	8664
OTHER FINANCIAL COMPANIES	7	35	9	60	781	3874
NON-FINANCIAL COMPANIES	48	86	53	93	12291	37227
GOVERNMENT	3	5	4	8	7686	10910
HOLDINGS	4	8	8	8	8892	599
OTHER TYPES	4	12	4	13	415	949
UNKNOWN TYPE	6	13	6	13	3530	2376
TOTAL	104	219	132	271	49,244	75,208

Source: Adapted from Gordon and Wójcik (2005: 1785).

It is important to keep in mind that many of the new financial service firms are controlled by large universal banks and insurance banks, which have spun-off their investment and other non-credit or non-insurance activities (e.g. Deutsche Bank). The results of the study conducted by Gordon and Wójcik (2005) indicate an important shift from holders acting simultaneously as lenders or insurers of companies to holders with interests focussed more narrowly, on purely financial return for their investment.

These new type of investors have led to new types of pressure. Institutional investors pursue financial interests through their investments, thus favouring profitability over growth and rather shorter time horizons. Institutions also have a strong preference for liquidity and generally refrain from active intervention in the fate of particular firms. Empirical studies show that institutional investors only rarely attempt directly to influence management (Steiger, 2000). Their monitoring capacity lies in professionalizing information gathering and exit-oriented strategy. Therefore, stock prices are becoming more responsive to management decisions and more volatile, too. Investor activism targets the promotion of general practices of good governance, but rarely translates into strategic interest in corporate control (Jackson/Höpner/Kurdelbusch, 2004). Between 1990 and 1998 the investment funds' share of all German shares rose from 4 per cent to nearly 13 per cent. But much of this investment is concentrated in a relatively small number of large firms (Jürgens et al. 2000: 4).

However, recently the activities of private equity firms and hedge funds have increased to important extent, influencing increasingly also strategic decisions of corporations. The buyout of Chrysler by the private equity company Cerberus is just one example.

The following table shows the activity of private equity firms in Germany, comparing the years 2005 and 2006. The figures have been published by the *Bundesverband Deutscher Kapitalbeteiligungsgesellschaften* (BVK), the German association of private equity firms.

Throughout the year 2006 the private equity firms operating in Germany had invested 3.6 billion Euro, a plus of 20 per cent compared to the previous year. The percentage of investments in Germany rose from 70.2 per cent in 2005 to 90.5 per cent. Throughout 2006 private equity firms invested 3.6 billion Euro in 970 companies (2005: 3.1 billion Euro in 983 companies). More than two thirds of all companies financed in 2006 have less than 100 employees and 72 per cent of them have turnovers under 10 million Euro. All companies that were provided initial or follow-on funding in 2006 had a total turnover of 47.3 billion Euro and 288,500 employees. All portfolio companies of the private equity investors produced a total turnover of 188.5 billion Euro with 962.400 employees. The vast majority of new investments was spent on the branches other services (42.7 per cent), mechanical engineering (18.5 per cent), iron, steel, light metal (5.5 per cent) and computer (4.3 per cent). Hightech industries (computer, communication technologies, biotechnology, medical related) together received 12.9 per cent (2005: 28.2 per cent) of all investments but can refer to almost one third of financed companies (BVK: 2007).

Table 6.5 Key facts about private equity firms in Germany: 2005-2006

Key Facts		
31 Dec 2006		**31 Dec 2005**
28.7 billion €	Funds under management	26.5 billion €
2.8 billion €	Funds raised	2.9 billion €
3.6 billion €	Investments	3.1 billion €
2,600.3 million € in 92 companies	… in buy-outs	1,767.9 million € in 82 companies
1,037.7 million € in 878 companies	… in venture capital	1,271.7 million € in 901 companies
264.3 million € in 337 companies	… in early stage	304.9 million € in 345 companies
23.1 billion €	Portfolio	21.5 billion €
5,986	Portfolio companies	5,723

Source: BVK (2007).

While many financial experts see private equity firms as innovators and leaders of change, which accelerate the modernization of Corporate Germany, others regard financial investors as overly aggressive capitalists, which take advantage of the neo-liberal zeitgeist prevailing in Europe. In contrast to the USA and the UK, private equity firms have been negatively perceived as "*Heuschrecken*"[44] ("locusts") in the German public due to the often radical ways they restructure companies

[44] The term "*Heuschrecken*" ("locusts") was used for the first time by the SPD chairman Franz Müntefering in Germany to describe the activities of private equity firms in the German economy.

(cutting costs through lay-offs or lower salaries) (Handelsblatt, 2007).

It is important to note that, since 2005, private equity firms, which often invest for a period of 4-6 years in a company, in contrast to hedge funds, which invest usually only for a short-term period of 2-3 years, have begun to focus, besides on the German "*Mittelstand*", also on large German companies. The reasons for this change are firstly that today's private equity companies dispose over more capital than ever before and that secondly the large German top 30 companies have doubled their profits within the last three years, which make them an interesting investment target for private equity firms. In fact, the profit margin among Germany's 30 DAX companies rose from three to five per cent, which is, however, still mediocre in comparison to the margin in the USA or the UK (the world's top 50 companies reach a margin of about 10 per cent!) but which shows the large potential of German companies to increase this margin even further (Handelsblatt, 2007).

In addition, many of Germany's top corporations are quite "cheap" to buy for private equity companies, e.g. Linde, one of Germany's largest corporations specialized in chemicals. The company would cost a private equity investor only about 12 billion Euro and although Linde is owned by three major shareholders (Deutsche Bank, Allianz, and Commerzbank), private equity companies have good chances to buy the company's shares as banks and assurance companies in Germany are aiming to decrease their stake in German companies (Handelsblatt, 2007).

6.3.6 Financial market reforms in Germany

The efforts to develop and promote financial securities markets in Germany became focussed in the early 1990s.

In the context of the capital market integration in Europe, which banks expected to accelerate due to the monetary union, the German state itself took an intense interest in these issues. The state was motivated by the fact that in international negotiations over financial market integration (the Basel Committee, the International Organization of Securities Commissions, and the EU itself) it was severely disadvantaged because it had comparatively little statutory authority and regulatory control over its own securities markets. For these reasons the Germans were frequently shut out of international cooperation efforts, and they feared that their inability to shape the terms of international financial market integration would severely disadvantage Germany economically (Lütz, 1998).

Thus in early 1992, the German Ministry of Finance launched its "*Finanzplatz Deutschland*" (Finance Centre Germany) campaign, making it clear that the German government intended to take control of the reigns in the German reform process.

The reorganization of the stock exchange system into a publicly traded company, the *Deutsche Börse AG*, in 1993, was one of the most important results of the new campaign. However, the reform was not an easy task, considering that the German *Bundesländer* (federal states) vigorously defended their prerogatives in supervising their own exchanges and feared a loss of influence. Therefore, the ultimate reform had to include many compromises but it still succeeded to make Frankfurt the sole focus of stock exchange promotion efforts in Germany. The reform led to a rapid expansion of securities trading in Germany during the second half of the 1990s.

The second result of the "*Finanzplatz Deutschland*" campaign was the *Second Financial Market Promotion Law*, in 1994. This new law harmonized the content and form of German regulation with international norms and EU directives. Moreover, it moved Germany away from the traditional self-regulation of securities markets and exchanges with the creation of an independent Federal Supervisory Office for Securities Trading. This new state agency, modelled after the US Securities and Exchange Commission, was charged with enforcing a new legal ban on insider trading and newly stringent information reporting requirements by issuers of securities and traders. The push for greater openness and transparency in reporting by public companies and in the markets represented a dramatic break with the past (Lütz, 1998; Ball, 2004).

The late 1990s witnessed another number of reforms that extended and expanded upon prior efforts. In early 1997 the *Neuer Markt*, a new electronic exchange for fast-growing technology firms, was introduced. In 1998 the Third Financial Market Promotion Law was passed. Also in 1998, an equity issues law (*Kapitalaufnahmeerleichterungsgesetz*, KapAEG) was promulgated which allows German firms to balance their books using the international (IAS) or American accounting standards (US GAAP). Use of these standards will increase transparency of company finances and thus give them greater access to foreign capital markets and investors (Lütz, 2000).

The late 1990s became the time when many of the reform efforts of the 1980s and early 1990s finally congealed and began to have a significant impact on the behaviour of financial firms, large corporations, and German retail investors. The period from late 1996 to 1999 can be viewed as a second key conjuncture of events that fully consolidated the institutional transformation process. It can therefore also be understood as marking the end of the critical juncture period during which the direction of institutional change was uncertain. It was during this time when the benefits of a decade's worth of reforms finally began to pay off for those who had invested so much in the new capital market-oriented path. From this conjuncture forward the momentum behind the new path appears unstoppable.

6.3.7 Accounting: disclosure and transparency

In the US, where business depends heavily on the stock market for the provision of capital, accounting principles tend to be shareholder-driven. A company demonstrates success by showing high profits; this makes management look good and keeps the share price high. In addition, high share prices help protect against unwanted (hostile) takeovers.

In Germany the situation is the opposite: accounting principles are tax-driven. Companies are motivated to minimize profits because tax authorities use published company financial statements to determine the size of a company's tax bill. Since German business has traditionally relied on banks to provide capital, accounting principles are oriented toward protecting these creditor banks rather than informing the investor (Randlesome, 2002). Showing high profits would likely mean that more would have to be paid out to the shareholders in dividends as well as to the government in taxes, and companies are already very effectively protected against hostile takeovers by the banks.

Corporate taxes in Germany are much higher than in the US (53 per cent vs. 34 per cent), but German companies get to declare lots of expenses and use very rapid depreciation to minimize profit. Under German accounting principles, companies may also set aside money to cover potential liabilities. These allowances, deductible for German tax purposes, are not under US tax law, so German companies are motivated to reserve the maximum amount possible under law to reduce the company's tax bill (Corbridge et al., 1993: 45). Taxes can be further minimized by assigning historical cost rather than current market value to assets but accounting for liabilities at current value (Randlesome, 2002). Keeping the tax bill low allows companies to amass huge, hidden reserves in good times, which can then be used to provide stability in lean times. The bankruptcy rate in Germany is consequently very low, thus protecting creditors.

The German accounting firm KPMG did a comparison study in 1988 of company results for German subsidiaries in the US using both American and German accounting methods. Earnings using the German calculations were only 42 per cent of what they would have been using the American principles (Glouchevich, 1992: 52). The advantage of this conservative German approach is that nobody receives any unpleasant surprises. The disadvantage of this approach, as far as shareholders are concerned, is that profits that could be distributed to them as dividends remain in the company as reserves.

In 1986, new accounting legislation was introduced that prohibited expense deductions that resulted in the hidden reserves of the past (Corbridge et al., 1993: 46). In 1995, a securities control agency was created, which has recently chastised companies for failing to comply with laws on timely disclosure of news that could affect share prices. Many companies, however, are still following the time-honoured practice of not making public negative news, hoping that it will be masked by later positive developments (Wall Street Journal, 1996b). International accounting practices are having more impact than governmental agencies, however. European Union (EU) legislation recommends that its member nations start getting used to International Accounting Standards (IAS) so that comparisons can already be made across industries and countries by members of the international financial community (Covill, 2001: 42–43).

The case of the Dresdner Bank, in 1995, is a good example for a change of the accounting policy of German companies, which for decades provided the public with only scant information about their true performance and gave no details about their hidden reserves. In 1995, the bank announced for the first time a 17 per cent increase in net income for 1995, reporting untaxed reserves of about DM 9 billion (≈ 4.59 billion Euro), which was essentially the difference between the historical value and the market value of its holdings of stocks and bonds. Now shareholders and analysts looking for the best deal could compare their performance and solidity with that of international rivals (Wall Street Journal, 1996a). Shareholders may also be expecting bigger dividends in the future as a result.

Other firms hope that the EC's international accounting methods will eventually be accepted as adequate disclosure for a NYSE listing. Major German chemical firms Bayer and Schering published 1994 year-end accounts using the IAS. The Securities and Exchange Commission may indeed be interested in a compromise, since US pension funds are increasingly investing in foreign equities through foreign stock markets, thus bypassing the New York Stock Exchange (Covill, 1995). Whether the impasse is the fault of the insularity of the Germans in sticking by the ways or the Americans in insisting in their more transparent standards is moot.

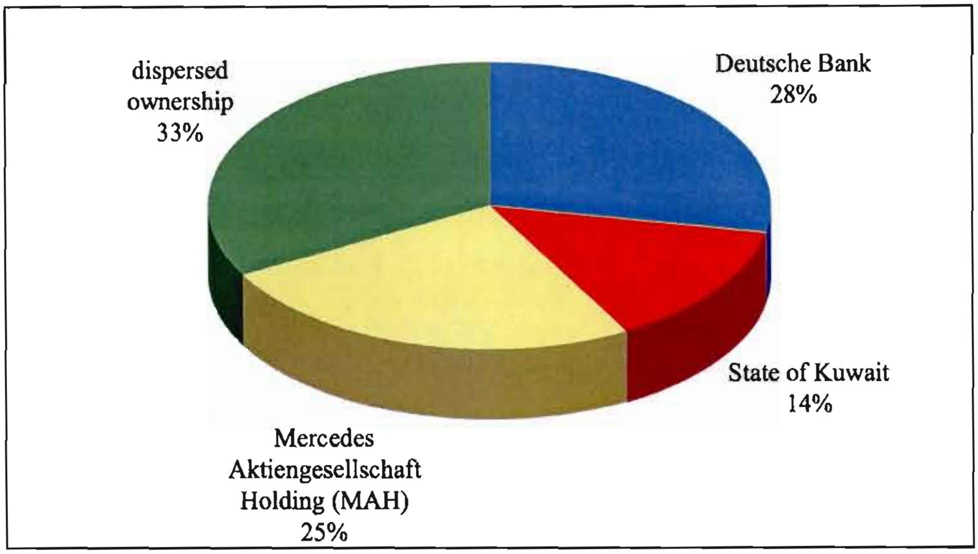
Until the mid-1990s, approximately 200 German companies were registered for trading in the illiquid over-the-counter market, which exempted them from US reporting and disclosure rules. Daimler was the first German company to "break ranks" and apply for full listing.

6.4 The impact on the DaimlerChrysler Corporation

The capital market had several important impacts on the DaimlerChrysler Corporation. In the 1990s, changes in the capital market led to changes in the share ownership structure, the corporate accounting principles, and the international share listing of the company. Furthermore, the general change of the role of banks in the German industry influenced also the role of the Deutsche Bank on DaimlerChrysler's corporate governance and management system.

At the beginning of the 1990s, the share ownership structure of Daimler-Benz AG reflected a typical German ownership structure, which was dominated by large German banks as majority shareholders. In 1991, the Deutsche Bank as a major shareholder owned 28 per cent, the Mercedes Aktiengesellschaft Holding (MAH) owned 25 per cent, it is important to note that Daimler-Benz and Mercedes-Benz had not merged into one company at this point, the State of Kuwait owned 14 per cent and only 33 per cent were hold by dispersed shareholders.

Figure 6.13 Daimler-Benz shareholder structure in 1991

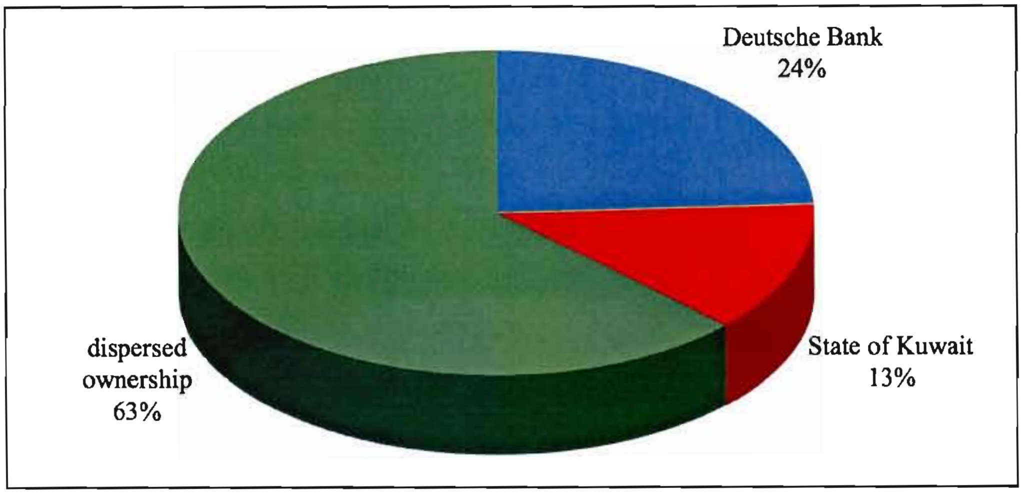


Source: Daimler-Benz (1992).

In 1993, the Deutsche Bank had representatives on the supervisory boards of approximately 25 per cent of German public corporations (AGs), including Daimler-Benz. Daimler-Benz's twenty-person supervisory board, at the end of 1993, included ten elected labour representatives, as required by law, and ten representatives of banks, the government, or the corporation. The chairman of the supervisory board was Hilmar Kopper of Deutsche Bank, the majority shareholder, which owned 24 per cent of the Daimler-Benz stock at the time (Daimler-Benz, 1994). Mercedes AG Holding held 25 per cent of the shares, while the Emirate of Kuwait owned 14 per cent of the company's share capital. When Arabs threatened to buy a controlling interest in Mercedes-Benz a few years earlier, Deutsche Bank intervened on behalf of the German economy to buy up the shares that were for sale, thus protecting the company from takeover (Thurow, 1992: 34).

In 1994, the Deutsche Bank still owned 24 per cent, the State of Kuwait 13 per cent and 63 per cent were owned by dispersed shareholders (Daimler-Benz, 1995).

Figure 6.14 The Daimler-Benz shareholder structure in 1994



Source: Daimler-Benz (1995).

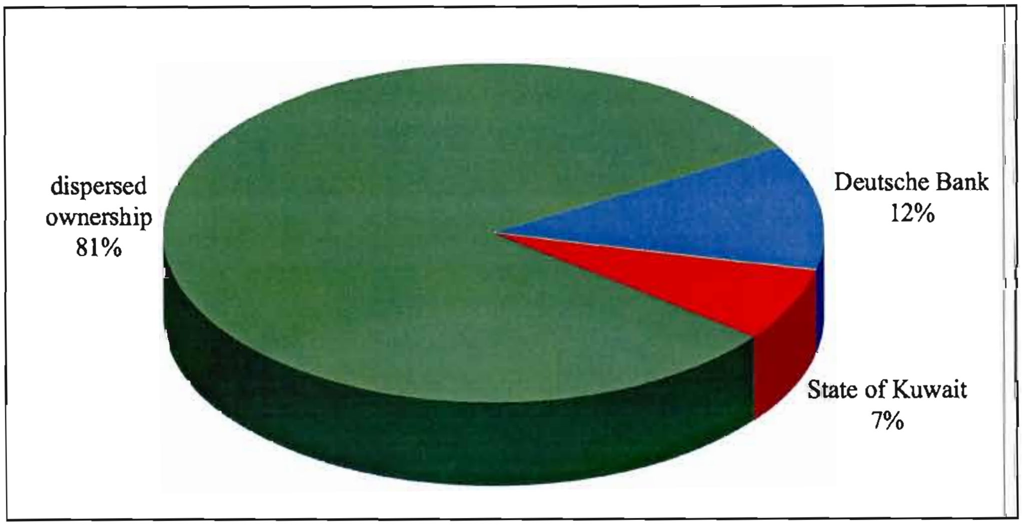
By the end of the 1990s, Daimler-Benz's shareholder base grew and became more diversified. The Deutsche Bank, the firm's traditional majority shareholder[45], reduced its stake in the company, reflecting the retreat of German banks from their strategic role in corporate governance, mentioned before.

The merger with the American automobile manufacturer Chrysler was another important step in the internationalization and dispersion of the company's share ownership structure. One year after the merger, in 1999, DaimlerChrysler's shareholder base grew by more than 30 per cent from 1.4 million to 1.9 million shareholders - a significant expansion. The institutional investors, including Deutsche Bank (12 per cent) and the Emirate of Kuwait (7 per cent), still owned approximately 75 per cent of total share capital. Private investors held the remaining shares (25 per cent) (DaimlerChrysler, 2001).

[45] Until the year 2005, Deutsche Bank remained the largest DC shareholder. However, on 28 July 2005, shortly before Jürgen Schrempp resigned as CEO, Deutsche Bank sold within a half an hour 35 million DC shares, a value of 1.4 billion Euro, to institutional investors. Thus, the bank reduced its stake from 10.4% to 6.9%. The largest shareholder is now the Emirate of Kuwait with 7.2%. On 22 November 2005, Deutsche Bank sold another 25 million of its shares at a price of 42.86 EUR per share.

By early 1998, 89 per cent of Daimler's and Chrysler's shares were still owned domestically. After a shareholder's pooling-of-interests through a share-for-share exchange of a GRS in DaimlerChrysler AG (DCX), the American equity ownership of the consolidated firm shrunk from 44 per cent to 21 per cent within 6 months, and the NYSE's dollar volume of worldwide DCX trading also declined from 28 per cent to 5 per cent (Harris et al., 2004: 1). The proportion of European shareholders increased further to around 65 per cent, while US investors held only 21 per cent of the company's equity (DaimlerChrysler, 2000).

Figure 6.15 DaimlerChrysler's shareholder structure in 1998

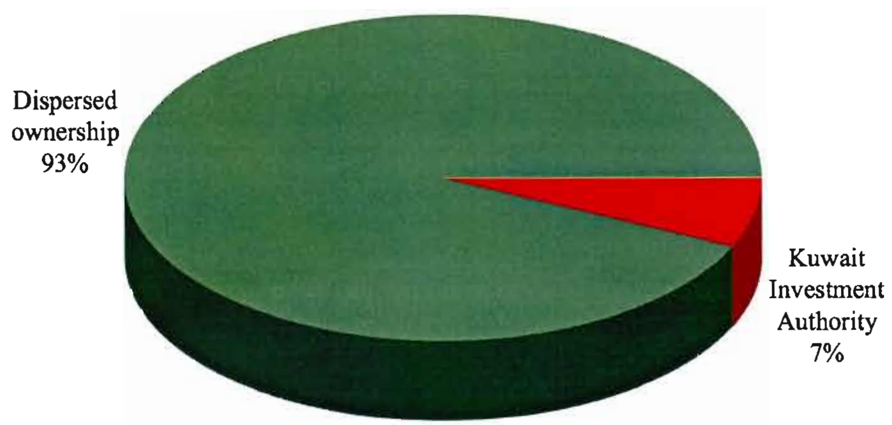


Source: DaimlerChrysler (1999).

Another important change in the ownership structure of DaimlerChrysler occurred shortly after Schrempp resigned as CEO in the year 2005. The Deutsche Bank decided to take advantage of the increase of DaimlerChrysler's share price due to Schrempp's announcement to leave the company. On July 28, 2005, the Deutsche Bank sold 13 per cent of their remaining DaimlerChrysler shares thus achieving a net profit of 35 million Euro. In this context, Hilmar Kopper, chair of DaimlerChrysler's supervisory board and representative of the Deutsche Bank, was accused to have used his insider knowledge about Schrempp's soon withdrawal (Zeit, 2006). However, the

Deutsche Bank could justify its actions, explaining that they had planned to sell their stake in the company a long time ago, only waiting for the right moment to sell, when the share price would exceed 38.5 Euro. The last remaining larger shareholder at DaimlerChrysler was thus the State of Kuwait. In 2005, the State of Kuwait owned 7 per cent of the shares, while dispersed shareholders owned the remaining DaimlerChrysler's shares, in fact, institutional investors owned 70.4 per cent and private investors owned 22.4 per cent of the company (DaimlerChrysler, 2006).

Figure 6.16 DaimlerChrysler's shareholder structure in 2005



Source: DaimlerChrysler Annual Report 2005, 2006.

The increasing importance of capital, as well as the internationalization and dispersion of the company's share ownership structure, in particular through the merger with Chrysler, implied for DaimlerChrysler also a change in accounting standards towards financial transparency and internationalization and a better communication with shareholders.

A general shift towards increased balance sheet transparency began for the Daimler-Benz AG already in the year 1993. On October 5, 1993, Daimler-Benz became the first German company to gain a full listing on the NYSE as American

Depository Receipts (ADRs). A full listing allows the stock to be purchased by institutional investors, insurance companies, and pension funds as well as by individual investors. The price Daimler-Benz paid for the full listing, however, was to produce two sets of accounts, one German and one American.

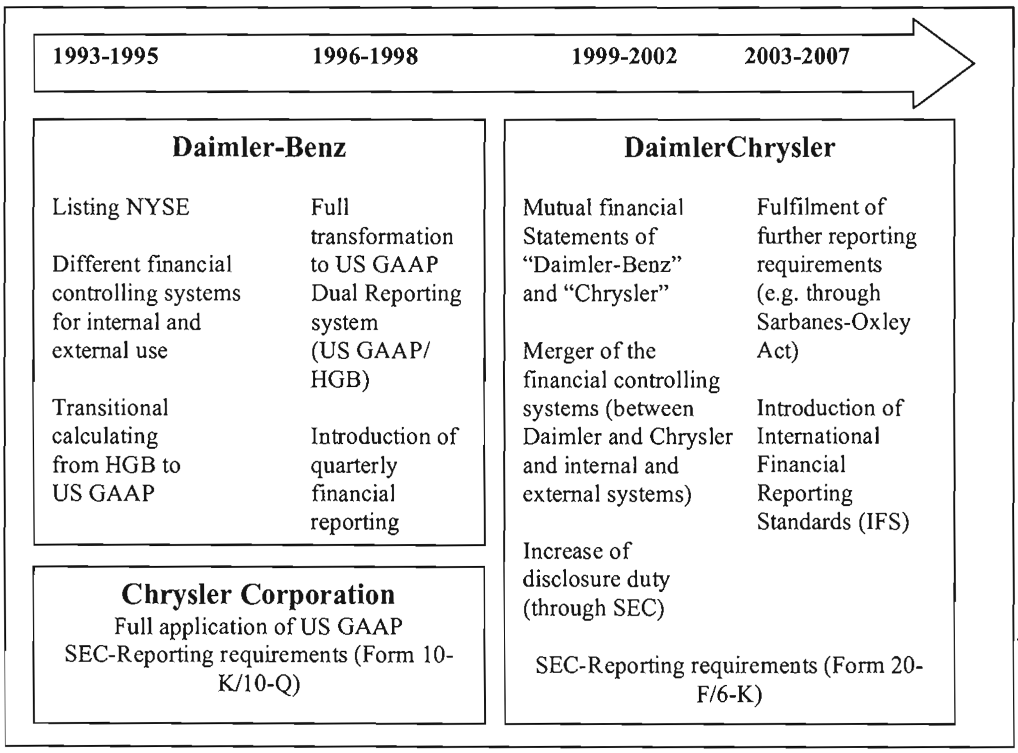
On September 17, 1993, in preparation for the NYSE listing, Daimler-Benz publicly announced half-yearly earnings that had been calculated under US GAAP. This was the first time that any German public company had done so. The disclosure had widespread and long-lasting effects on Daimler-Benz and other German public companies. The company's release of earnings calculated under US GAAP was required under Rule 20-F of the Securities Exchange Commission Act of 1934, which regulates US securities markets. Rule 20-F reporting requirements apply to all firms issuing or listing securities on national markets in the United States. The rule requires a reconciliation of the company's home-country financials to those that would be reported under US GAAP. Daimler reported the major effects of differences between US and German accounting rules on Consolidated Net Income and Stockholders' Equity (Ball, 2004).

Daimler's 1993 20-F reconciliation shows Shareholders Equity under US GAAP as DM 26,281 millions, some 50 per cent higher than the equivalent HGB number of DM 17,584 millions. The largest component of the difference was DM 5770 described as "Provisions, Reserves and Valuation Differences." This description is not very informative, but it does imply that in past years the company had made each of the above three types of journal entry to reduce book values and reported earnings. Subsequently, earnings can be inflated quite simply by transferring amounts out of the hidden reserves. A credit to earnings is accompanied by a debit entry — to reduce prior provisions for liabilities, or to reduce Shareholders Equity reserve accounts, or to increase the book values of assets. Daimler's DM 4262 millions of "Extraordinary Results" and "Gain on Sale of Securities" appear to fall into the second category, a transfer out of Shareholders Equity into the Income Statement for the year. Under US GAAP these items would have been included in earnings in prior years, but their inclusion was deferred until 1973. It seems no coincidence that they were not included in earnings during good years and that they were included in a year that otherwise would have shown a loss.

The German public was not informed about either fact. However, conservative balance sheets and underreporting of earnings in good times is consistent with the important German *Vorsicht* ("Prudence") principle, which allegedly is for the protection of creditors (Bradley/Sundaram, 2003). Had Daimler been a US company and reported a profit of DM 615 millions, and then subsequently revealed that it had made a loss of DM 1839 millions, there would have been an accounting scandal of major proportions. While it would have been eclipsed in magnitude by some subsequent accounting scandals (such as Worldcom and Enron), this would have ranked among the largest earnings restatements in history, and was an extremely large amount at the time. However, the problem in the German system was not that Daimler initially failed to report a "bottom line" loss. The problem in Germany was that it subsequently *reported* the loss. Public reaction was swift and furious. Protesters carried black coffins in the streets of Frankfurt, and the tabloids referred to management board chairman Schrempp as "Neutron Jürgen," a reference to General Electric's ruthless CEO "Neutron Jack" Welch (Vlasic/Stertz, 2001: 129).

A related complaint was that, in agreeing to comply with the SEC's insistence on US GAAP information, Daimler-Benz had undermined Germany's prospects for negotiating mutual recognition of accounting standards with US authorities. Mutual recognition was strongly advocated by the German authorities, for example Biener (1994). The concern was valid: Germany subsequently legislated to allow consolidated financial reporting under US GAAP, but the United States has never recognized HGB rules. The Daimler-Benz move also was seen as reducing the status of an accounting system that is rooted in the philosophy of *Vorsicht* ("Prudence"), with its underreporting of book value and heightened creditor protection. The merger with an American corporation at the end of the 1990s, forced the German corporation Daimler-Benz to increase its efforts to comply with US accounting and disclosure standards. After the merger with Chrysler on November 17, 1998, DaimlerChrysler began trading in a single global registered share (GRS). The GRS quotes, trades and settles in US Dollars on the New York Stock Exchange and in Deutschmarks/Euros on the Frankfurt Stock Exchange through a new global share registrar linking German and US registrars and clearing facilities. Henceforth, DaimlerChrysler did not only become the first German company to be fully listed at the NYSE, it became also the first truly global share (Karolyi, 2003). Consequently, DaimlerChrysler, still a German *Aktiengesellschaft*, had to adopt even further disclosure rules and standards to comply with US and international capital market standards.

Figure 6.17 Phases of capital-market-oriented reporting at DaimlerChrysler



Source: Adapted from Küting, Pfitzer, and Weber (2004).

However, in their study about the protection of minority shareholder interests at DaimlerChrysler, Harris, Jarrell, McInish, and Wood (2004) found that cross-listing disclosure requirements, though they provide measurable reductions in asymmetric information, cannot make up for the weaker corporate governance structure in Germany, concerning the protection of shareholders.

Increased disclosure and international accounting standards are, besides incentive-based executive compensation and voting rights, essential instruments for the protection of the interest of shareholders. Already in its 1996 annual report, Daimler-Benz (1997: 44–45) disclosed several radical changes to its governance. They were linked together under the intriguing title "Value-based management, US GAAP, and new controlling instruments." Under the subheading "Understanding value-based management," it described the version of the shareholder governance model that it had embraced as follows:

> "The permanent and continuous expansion of our company's value is only possible when the interests of all groups that contribute to our success are given the appropriate degree of consideration. Our economic performance and satisfactory returns for our shareholders depend on motivated employees, satisfied customers, and reliable and innovative suppliers. On the other hand, only a profitable company is in a position to obtain the funds required for securing the future from the capital market at relatively favourable terms and to offer its employees secure and challenging jobs and thus earn their long-term commitment. Management at Daimler-Benz is therefore dedicated to increasing the value of the Company for the benefit of everyone involved." (Daimler-Benz, 1997: 44).

The word stakeholder was conspicuous in its absence in the statement. Management was careful to give recognition to major parties, using terms such as "all groups that contribute to our success" and "everyone involved," but these terms do not imply participation by the parties in the decision process, an important ingredient of the stakeholder model. There was not even an indication that shareholder value was one of several objectives, to be balanced against other objectives such as employment security or creditor security. It was stated as *the* objective.

6.4 Conclusion

In this chapter, I have presented the evolution and the changes in the market for products and services, "talent", and capital during the 1990s and analyzed their impact on the Daimler-Benz AG, later DaimlerChrysler AG until 2005.

The globalization and increasing competition in the automobile market, the opening of the German capital market and the increasing influence of international investors (e.g. hedge funds, private equity companies, pension funds, etc.), as well as the shifts in German traditional management values and the market for "talent", have had a strong influence on the system of management and corporate governance of DaimlerChrysler.

The analysis showed that DaimlerChrysler adopted important elements of the shareholder value model during the 1990s, especially after the merger with the American company Chrysler. Although DaimlerChrysler maintained legally a German corporation (*Aktiengesellschaft*), the merger with Chrysler and the forces from the market for products and services, capital, and "talent", forced Daimler to embrace certain Anglo-Saxon business values and practices, for example: incentive based management remuneration, international accounting standards, a more dispersed share owner structure, a corporate finance based primarily on international capital markets, and a shareholder value oriented management style. However, DaimlerChrysler remained legally a German corporation and had to maintain certain employee rights, such as the right of codetermination and the forming of work councils.

The following figure 6.18 represents a brief synthesis of the shifts and changes within the DaimlerChrysler Corporation in the 1990s.

Figure 6.18 Changes and shifts in DaimlerChrysler AG's management and corporate governance system in the 1990s

Governance in the...

Daimler-Benz AG until 1990	**DaimlerChrysler AG since 1998**
• Internal job training, German apprenticeship system, recruitment at graduation from German schools and universities;	• Active market for talent: executives also hired from external labour markets (e.g. financial or M&A experts);
• Family principles used in the dealings with the staff implying job security, employment "for life", salaries above German average, and social benefits (e.g. sick pay and paid holidays);	• Plant closings, business divestures, payroll and workforce reductions strengthen financial performance but have caused a serious rupture in DaimlerChrysler's employee relationship (less job security, lower salaries and less social benefits);
• High mutual loyalty between Daimler-Benz and its employees and strong corporate identity (especially in Swabia);	• Clearly defined financial goals and transparent internal and external financial performance indicators embedded in a strict controlling system;
• Promotion from within almost exclusively: managers have worked for the company for many years;	• Mobile executives seek full market value for their "talent"; performance-based remuneration for managers, based on share price performance (e.g. share option plans, etc.);
• Management decisions are based on the well-being of the company at long-term; management remuneration is not based on share-price performance;	• Internationally dispersed shareholders (e.g. fund managers) pressure top management for stock performance, and for their replacement if it proves unsatisfactory;
• Daimler-Benz sales its products and services in regulated and protected markets, where the company has achieved a strong position;	• In the course of globalization DaimlerChrysler's product and service markets have become increasingly competitive and deregulated;
• Shareholders, **but one** stakeholder; retained earnings and bank loans the main source of corporate finance; German accounting system protects interests of the company, not the shareholders; Deutsche Bank is major shareholder and protects the company against international capital pressures; Daimler-Benz employees have a strong influence on management (codetermination, work councils, and unions);	• Shareholders importance among other stakeholders has enormously increased; corporate finance based on financial markets; use of international accounting standards; global share listing;
Management and governance are driven by traditional German stakeholder-oriented values stressing high quality standards, stability, security, and continuity.	**Management and governance focusing on growth and value creation for shareholders at almost "any" cost or risk for other company stakeholders.**

Source: Own illustration, 2007.

FINAL CONCLUSION

Within the context of debates over convergence and path dependency of corporate governance, this thesis has discussed the shifts and changes in the former Daimler-Benz *Aktiengesellschaft* (AG), later the DaimlerChrysler Corporation, in the period from 1990 until 2005. Distinct features and characteristics of the environment of the Anglo-American model of shareholder value and the Continental-European stakeholder model of corporate governance have been outlined and implicated in the contemporary debate about changes in the German corporate structure.

The case study of DaimlerChrysler reveals how German corporations incrementally adopted shareholder-oriented principles - performance-based management remuneration, transparent disclosure and international accounting standards, value-based management, and reduced monitoring by banks and corporate networks - driven by international market forces, while they maintained important features of the stakeholder system – employees' codetermination, collective agreements and cooperation with work councils and unions.

From a traditional German car manufacturer it grew in size and scope to an integrated technology corporation in the early 1990s. Until then Daimler-Benz AG represented a typical stakeholder-oriented German corporation. Shareholders were just one stakeholder among others. Company stakeholders, like suppliers, the government, unions, and employees played an important role in the system of decision-making.

There existed a strong mutual loyalty between Daimler-Benz and its employees. As an employer, Daimler-Benz paid wages and salaries above the German average, promoted professional education and apprenticeship programs among its employees and offered many social benefits. Lay-offs were avoided and the company considered its highly qualified and well-paid employees as competitive advantage against competitors. Solutions in times of economic crisis were found by the management in cooperation with the internal workers' council (*Betriebsrat*) and in some cases the powerful German union IG Metall. Furthermore, employees were a strong pillar in Daimler-Benz AG's corporate governance and management system, representing according to the German codetermination act (1976) half of the members of the Daimler-Benz supervisory board.

Managers at Daimler-Benz were traditionally recruited from inside the company sharing the company's traditional "Swabian" business culture and German management values: high quality standards, stability, security, and continuity – implying a certain tendency to avoid risks. Management remuneration was not performance based and usually not linked to the share price performance.

Daimler-Benz's financial results were only published under the German HGB accounting standards, thus protecting the company against the risk of detailed disclosure (German principle of "*Vorsicht*") but lacking transparency and explanatory power for international and dispersed minority investors and analysts. However, in 1991, dispersed shareholders, only 33 percent of Daimler-Benz shareholder basis, were not in the position to put pressure on management in order to avoid information asymmetry about financial results. Corporate financing was mainly based on bank loans and Deutsche Bank, one of the most important creditors in Germany, was Daimler-Benz's major shareholder, holding 28 percent of the company's shares in 1991. Being part of the so-called "Deutschland AG", Germany's strong inter-firm and bank network, Daimler-Benz was protected against hostile takeovers and serious pressures from the international capital market.

Until the 1980s, Daimler-Benz markets for products and services, including the automobile, aerospace and defence sector, were still regulated and in certain ways protected against foreign competitors. Within Germany Daimler-Benz enjoyed a strong position among its competitors and international growth in sales flourished, while production capacities remained mainly in Germany.

In the period between 1990 and 1998, Daimler-Benz underwent a number of radical shifts and changes, which incrementally changed the nature of the company from a traditionally stakeholder-oriented to a more shareholder-value-oriented corporation.

In the early 1990s, the globalization of the automobile market, the company's core business sector, increased the pressure on Daimler-Benz to compete in a more efficient, deregulated, and competitive market. The company felt the need to grow in size in order to gain global economies of scale and scope against other competitors and to outsource an important portion of the value chain in form of modules and components to international suppliers in order to cut costs. To finance its international growth Daimler-Benz used new resources from international financial markets, listing at the NYSE and adopting for the first time in its corporate history international accounting standards.

In the mid-1990s, a radical restructuring process including plant closings, business divestures, payroll and workforce reductions, brought the company back on track, redefining corporate strategy, goals and values. The new Daimler-Benz CEO Jürgen E. Schrempp, whose technical education and work experience were typical for a German top manager, did not have much in common with the traditional German management approach based on "compromise" with stakeholders. Schrempp's radical company concept ("*Unternehmenskonzept*") focussed on cost cutting and profitability. A serious rupture in Daimler's employee relationship was the consequence. Since then lay-offs, lower salaries, and the reduction of social benefits for employees have become a regular measure for DaimlerChrysler in times of crisis. In addition, clearly defined financial goals and transparent internal and external performance disclosure and controlling systems have set clearly defined financial goals for each individual business unit.

In the late 1990s, Daimler-Benz's incremental reorientation towards shareholder value principles attained a new level. Schrempp initiated and realized the world's largest transatlantic merger, the DaimlerChrysler merger, and bought stakes in Mitsubishi and Hyundai to get a foothold in the Asian market. In the course of globalization, DaimlerChrysler became a global share and the company's shareholder structure became increasingly internationally dispersed. In addition, the Deutsche Bank decided to sell a major stake in the company. New pressures arose from international financial markets (e.g. fund managers) on top management for stock performance, and for their replacement if it proves unsatisfactory. As shareholders' importance among other stakeholders increased, DaimlerChrysler's management remuneration became more performance-based in order to align management's interest with the interest of shareholders. Stock option plans, which had been a current form of management remuneration at Chrysler, were also introduced for German managers in the context of the German-American merger in 1998.

At the end of the 1990s, DaimlerChrysler had converged toward a hybrid model of management and corporate governance. In his report on "Value-based controlling at DaimlerChrysler," CFO Gentz (1999: 6) described a company trying to evolve a more hybrid governance model than it had described in 1996, incorporating elements of both the U.S. and German systems. He now saw the need to merge the "common philosophies" of "shareholder value management at Chrysler" and "value-based management at Daimler-Benz". DaimlerChrysler managed to preserve important features of the German loyalty/stakeholder model (e.g. codetermination, work councils, cooperation with unions, etc.), while it had adapted incrementally also principles of the Anglo-Saxon shareholder value model (e.g. performance-based management remuneration, transparent disclosure of financial results, etc.).

Thus, in the case study of DaimlerChrysler, the theory of convergence from a stakeholder towards shareholder value model, in an evolutionary process driven by market forces, can be confirmed – but only to a certain extent. The theory of path dependency, according to which national and cultural differences will remain in corporate governance and management philosophies, may help us to explain why DaimlerChrysler never converged entirely to a shareholder-value-oriented model. DaimlerChrysler's current model of corporate governance and management seems to console the legal and political requirements of the national social market context in Germany with the needs and requirements to maintain competitive in a context of deregulated global markets.

Finally, the recent sale of Chrysler to an international private equity company corresponds to DaimlerChrysler's 'value-based management', which is based on shareholder value principles. To which extent the Daimler Group AG will converge further to the Anglo-Saxon shareholder value model, or reverse it, maintains an interesting question for a future study.

BIBLIOGRAPHY

Adams, M. (1999). "Cross Holdings in Germany". In *Journal of Institutional and Theoretical Economics,* volume 155, issue 3, pp. 80-109.

Adams, M. (2002). "Aktienoptionspläne und Vorstandsvergütungen". In *Zeitschrift für Wirtschaftsrecht (ZIP),* 2002, pp. 1325-1344.

Airey, D., Gepp, A., Harris, C., and Y. Menard (2003). "DaimlerChrysler: post-merger news". Richard Ivey School of Business, University of Western Ontario, Harvard Business Review Press: Boston.

Aldrighi, D.M. (2002). "Is Globalisation sapping the stakeholder model? An assessment of the German case". In *Supranational Cooperation and Integration: Goods and Services vs. Information,* edited by Eisen, R., Peter Lang Europäischer Verlag der Wissenschaften: Frankfurt am Main, pp. 61-89.

Allaire, P. (1992). "The CEO as Organizational architect. An Interview with Xerox's Paul Allaire". In *Harvard Business Review*, September-October 1992, pp.107-121.

Allaire, Y. and M.E. Firsirotu (1993*). L'Entreprise Stratégique: Penser la Stratégie.* Gaëtan Morin Éditeur: Montréal.

Allaire, Y. (2003). "Fair Wages For An Honest Day's Work: Executive Compensation for The Post-Enron Era". Working paper, J. Armand Bombardier Chair, UQAM.

Allaire, Y. and M.E. Firsirotu (2004). *Stratégies et moteurs de performance: les defies et les rouages du leadership stratégique*. 2nd edition, Chenelière/McGraw-Hill, Montréal: 2004.

Allaire, Y. and M.E. Firsirotu (2005). *Beyond Monks and Minow: From Fiduciary to value Creating Governance*. Forstrat International: Montréal.

Allen, F. and D. Gale (1995). "A welfare comparison of intermediaries and financial markets in Germany and the U.S.". In *European Economic Review*, volume 39, pp. 179-209.

Aoki, M. (1988). *Information, Incentives, and Bargaining in the Japanese Economy*. Cambridge University Press: New York.

Ball, R. (2004). "Daimler-Benz AG: Evolution of Corporate Governance from a Code-law Stakeholder toward a Common-law Shareholder Value System". In *The Economics and Politics of Accounting: International Perspectives on Trends, Policy, and Practice*, edited by A. Hopwood, C. Leuz and D. Pfaff, Oxford University Press: Oxford.

Balling, M. (1997). "Corporate Governance: A Keynote Speech". In *Corporate Governance, Financial Markets and Global Convergence* edited by M. Balling, E. Hennessy and R. O'Brien, Société Universitaire Européenne de Recherches Financières (SUERF), Financial and Monetary Policy Studies, volume 33, Kluwer Academic Press: Dordrecht.

Balls, A. (2004). "Good Governance a competitive advantage". In *NZ Business*, April (2004), p.40.

Barney, J. (1988). "Agency theory, employee stock ownership and a firm's cost of equity capital". Working paper, Texas A&M University, College Station.

Baums, T. (1998). "Corporate contracting around defective regulations: The Daimler-Chrysler case". Working paper, number 68, University Osnabrück: Osnabrück.

Baums, T. and A. Birkenkaemper (1998). "Corporate governance in Germany". Working paper, Universität Osnabrück Institut fur Handels-und Wirstschaftsrecht: Osnabrück.

Baums, T. and K.E. Scott (2005). "Taking Shareholder Protection Seriously? Corporate Governance in the U.S. and Germany". In *Journal of Applied Corporate Finance*, volume 17, number 14, pp. 44-63.

Barca, F. and M. Becht (2001). *The Control of Corporate Europe.* Oxford: Oxford University Press.

Bebchuk, L.A., Fried, J. and D. Walter (2002). "Managerial Power and Rent Extraction in the Design of Executive Compensation". In *University of Chicago Law Review*, volume 69, number 3.

Bebchuk, L.A. and M.J. Roe (1999). "A Theory of Path Dependence in Corporate Ownership and Governance". In *Stanford Law Review,* volume 52, pp. 127-170.

Becht, M. and Röell (1999). "Blockholdings in Europe: An International Comparison". In *European Economic Review*, volume 43, number 4, pp. 1071-1056.

Becker, H. (2005). *Auf Crashkurs: Automobilindustrie im globalen Verdrängungswettbewerb*. Springer: Berlin.

Beekmann, P. (2004). “Eigenkapitalunterlegung für Beteiligungen nach Basel II und die sich eröffnenden Alternativen”. Working paper, prepared for the lecture “Ausgewählte Probleme von Basel II”, Fachhochschule Kiel.

Berg, N., Holtbrügge, D., and M.K. Welge (2002). “Stakeholder Management in German Multinational Corporations”. Working paper, number 35, University of Dortmund.

Berle, A.A. and G.C. Means (1932). *The Modern Corporation and Private Property.* MacMillan: New York.

Berndt, M. (2002). *Global Differences in Corporate Governance: Theory and Implications for Reforms.* Deutscher Universitäts-Verlag: Hamburg.

Beyer, J. (2003). “Deutschland AG a.D.: Deutsche Bank, Allianz und das Verflechtungszentrum des deutschen Kapitalismus”. In *Alle Macht dem Markt? Fallstudien zur Abwicklung der Deutschland AG,* Campus: Frankfurt am Main, pp. 118-146.

Black, S. W. (1996). “Which way ahead for European financial markets: The German or the Anglo-Saxon model?”. Conference paper, American Institute for Contemporary German Studies, the Johns Hopkins University: Washington, DC, June 9-10, 1996.

Blonigen, B.A. and R.B. Wooster (2003). “CEO turnover and foreign market participation”. Working paper, number 9527, National Bureau of Economic Research: Cambridge.

Borio, C.E.V. (1990). "Leverage and financing of nonfinancial companies: An international perspective". *BIS Economic Papers*, number 27.

Bradley, N. (2004). “Corporate Governance Scoring and the Link Between Corporate Governance and Performance Indicators: in search of the Holy Grail”. In *Corporate Governance,* volume 12, number 1, pp. 8-10.

Bradley, M., Schipani, C., Sundaram, A. and J. Walsh (1999). “The purposes and accountability of the corporation in contemporary society: Corporate governance a crossroads”. In *Law and Contemporary Problems*, volume 62, number 3, pp. 9-86.

Bradley, M. and A. K. Sundaram (2003). “The Emergence of Shareholder Value In the German Corporation” (December 2003). Meetings Paper, number 1467, EFA 2004 Maastricht.

Branson, D.M. (2001). “The very uncertain prospect of ‘global’ convergence in corporate governance”. In *Cornell International Law Journal*, volume 34, number 3, pp. 321-362.

Bratton, W.W., and J.A. McCahery (1999). “Comparative corporate governance and the theory of the firm: The case against global cross-reference”. In *Columbia Journal of Transnational Law*, volume 38, number 2, pp. 213-298.

Bricker, R. and N. Chandar (2000). “Where Berle and Means went wrong: reassessment of capital market agency and financial reporting ”. In *Accounting, Organizations and Society*, volume 25, number 6, pp. 529-554.

Brylawski, M. (1999). “Uncommon Knowledge: Automotive Platform Sharing’s Potential Impact on Advanced Technologies”. R.P. T99-10, Rocky Mountain Institute: Snowmass, CA.

Cadbury, A. (1992). *Report of the Committee on the Financial Aspects of Corporate Governance*. Gee Ltd.: London.

California Public Employees' Retirement System (CalPERS) (1996). "International Corporate Governance: A Study of the Corporate Governance Systems of the United Kingdom, France, Germany and japan". CalPERS: Sacramento.

Carati, G. and A. Tourani Rad (2000). "Convergence of Corporate Governance Systems". In *Managerial Finance,* volume 26, number 10, pp. 66-83.

Casper, S. and H. Kettler (2000). "National Institutional Frameworks and the Hybridization of Entrepreneurial Business Models within the German and UK Biotechnology Sectors“. Working paper, Wissenschaftszentrum Berlin.

Clark, K. and T. Fujimoto (1991). *Product Development and Performance: Strategy, Organization and Management in the World Auto Industry*. Harvard Business School Press: Boston.

Coffee, J. (1999). "The future as history: The prospects for global convergence in corporate governance and its implications". In *Northwestern University Law Review*, volume 93, number 3, pp.641-707.

Copeland, T., Koller, T. and J. Murrin (1994). *Valuation - Measuring and Managing the Value of Companies.* John Wiley: New York.

Corbett, J. and T. Jenkinson (1997). "How is Investment Financed? A Study of Germany, Japan, the United Kingdom and the United States." In *The Manchester School Supplement*, volume 65, pp. 69-93.

Corbridge, C.L. Austin, W. and D.J Lemak. "Germany's Accrual Accounting Practices". In *Management Accounting (USA)*, volume 75, number 2, pp. 45-47.

Covill, L. (1995). "Playing the American Card". *Euromoney*, May, pp. 42–43.

Creswell, J.W. (1994). *Research Design: Qualitative and Quantitative Approaches*. Sage Publications: Thousand Oaks, pp. 143-172.

Day, G.S. (1993). "The Capabilities of Market-Driven Organizations". In *Journal of Marketing*, volume 58, pp. 37-52.

Denis, D.K. and J.J. McConnell (2003). „International Corporate Governance". In *Journal of Financial and Quantitative Analysis,* volume 38, number 1, pp. 1-36.

Deutsches Aktieninstitut e.V. (DAI) (2001). *DAI-Factbook 2001*. DAI: Frankfurt am Main.

Donnelly, S., Gamble, A., Jackson, G., and J. Parkinson (2000). "The public interest and the company in Britain and Germany". Policy paper, The Anglo-German Foundation for the Study of Industrial Society.

Drucker, P. (1995). *Managing in a Time of Great Change*. Truman Tally Books/Dutton: New York.

Durnev, A., and E.H. Kim (2002). "To steal or not to steal: Firm characteristics, legal environment, and valuation". Working paper, University of Michigan Business School.

Easterbrook, F.H. (1997). "International corporate differences: Markets or law?". In *Journal of Applied Corporate Finance*, volume 9, number 3, pp. 23-29.

Easterbrook, F.H. and D.R. Fischel (1983). "Voting in corporate law". In *Journal of Law and Economics*, volume 26, number 2, pp. 395-427.

Eccles, R. (1985). "Transfer pricing as a problem of agency". In *Principals and agents: The structure of business* edited by Pratt, J. and R. Zeckhauser, Harvard Business School Press: Boston, pp. 151-186.

Edmunds, B. (2005). *Unternehmenskontrolle durch Aktionäre in Deutschland: wirtschaftsethische Überlegungen zu einer möglichen Transformation*. Working paper, number 41, Oswald von Nell-Breuning-Institut für Wirtschafts- und Gesellschaftsethik: Frankfurt am Main.

Eisenhardt, K.M. (1989). "Agency Theory: An Assessment and Review". In *Academy of Management Review*, volume 14, number 1, pp. 57-74.

Estevez-Abe, M., Iverson, T., and D. Soskice (2001). "Social Protection and the Formation of Skills: A Reinterpretation of the Welfare State". In *Varieties of Capitalism* edited by Hall, P. and D. Soskice, The Oxford University Press: Oxford.

Evan, W.M. and R.E. Freeman (1988). "A Stakeholder Theory of the Modern Corporation: Kantian Capitalism". In *Ethical Theory and Business, 3rd edition* edited by Tom, L. and N. E. Norman, Beauchamp: Englewood Cliffs, NJ, pp. 97-106.

Fama, F.E. (1976). *Foundations of Finance: Portfolio Decisions and Securities Prices*. Basic Books, Fama, E. F. & M. C. Jensen: New York.

Fernandez, P. (2002). "A definition of shareholder value creation". Research Paper, number 448, University of Navarra.

Finlay, W. and J.E. Coverdill (2002). *Headhunters: Matchmaking in the Labor Market*. Cornell University Press: Ithaca.

Firsirotu, M. (1984). *Strategic Turnaround as Cultural Revolution. The Case of Canadian National Express.* Ph.D. Thesis, Mc Gill University 1985; 568p Chaire Bombardier: Montréal.

Foudy Jr., J.F. (2001). "Shareholder Value and the German and Japanese Models: A Case study of the Automobile Sector". Working paper, Yale University Press: New Haven.

Franks, J.R. and C. Mayer (1994). "Corporate Control: A Synthesis of the International Evidence". Working paper, London School of Economics, pp. 165-192.

Freeman, E.R. (1984). *Strategic management: a stakeholder approach*. Pitman Series in Business and Public Policy: Boston.

Freeman, E.R. (2004). "The Stakeholder Approach Revisited". In *Zeitschrift für Wirtschafts- und Unternehmensethik (zfwu),* number 5, pp. 228-241.

Frick, B. and E. Lehmann (2005). "Corporate Governance in Germany: Ownership, Codetermination, and Firm Performance in a Stakeholder Economy". In *Corporate Governance and Labour Management*, edited by Gospel, H. and A. Pendleton, Oxford University Press: Oxford, pp. 122-147.

Fukao, M. (1995). *Financial Integration, Corporate Governance, and the Performance of Multinational Corporations*. Brookings Institute: Washington, D.C.

Gentz, M. (1999). "Value-based controlling at DaimlerChrysler". DaimlerChrysler AG: Stuttgart.

Gentz, M. (2003). "Corporate Governance in a Transatlantic Company: DaimlerChrysler". In *Corporate Governance: Essays in Honor of Horst Albach*, 2nd edition, edited by Joachim Schwalbach, Berliner Wissenschafts-Verlag: Berlin, pp. 2-23.

Gilson, R.J. (2004). "Globalizing corporate governance: convergence of form or function". In *Convergence and Persistance in Corporate Governance* edited by Gordon, J. N. and M. J. Roe, Cambridge University Press: Cambridge, pp. 128-158.

Glaum, M., Thomaschewski, D. and S. Weber (2006). "Auswirkungen des Sarbanes-Oxley Acts auf deutsche Unternehmen: Kosten, Nutzen, Folgen für US-Börsennotierungen". In *Studien des Deutschen Aktieninstituts*, number 33, pp. 1-120.

Glouchevich, P. (1992). *Juggernaut: The German Way of Business and Why It Is Transforming Europe – and the World.* Simon & Schuster: New York.

Gompers, P., Ishii, J., and A. Metrick (2001). "Institutional Investors and Equity Prices". In *Quarterly Journal of Economics,* fall edition.

Gordon, J.N. (1999). "Pathways to corporate convergence? Two steps on the road to shareholder capitalism in Germany: Deutsche Telekom and Daimler Chrysler". In *Columbia Journal of European Law*, volume 5, number 215, pp. 219-241.

Gordon, J.N. (2003). "Convergence on Shareholder Capitalism: An Internationalist Perspective". In *Global Markets, Domestic Institutions: Corporate Governance* *in a New Era of Cross-Border Deals* edited by Milhaupt, C.J., Columbia University Press: New York, pp. 214-256.

Gordon, L.C. and D. Wójcik (2005). "Path dependence and financial markets: the economic geography of the German model, 1997-2003". In *Environment and Planning*, volume 37, number 10, pp. 1769-1793.

Gorton, G., and F. Schmid (2000). "Class struggle inside the German firm: A study of German codetermination". Working paper, The University of Pennsylvania, Wharton School, August.

Goyer, M. (2003). "Corporate Governance, Employeees, and the focus on Core Competencies in France and Germany". In *Global Markets, Domestic Institutions: Corporate Governance in a New Era of Cross-Border Deals* edited by Milhaupt, C.J., Columbia University Press: New York, pp. 183-215.

Grässlin, J. (1999). *Jürgen E. Schrempp, der Herr der Sterne*. Droemer/Knaur: München.

Grässlin, J. (2000). *Jürgen Schrempp and the Making of an Auto Dynasty*. McGraw-Hill: New York.

Grässlin, J. (2005). *Das Daimler Disaster: Vom Vorzeigekonzern zum Sanierungsfall?*. Droemer/Knaur: München.

Grötker, R. (2006). "Das neue Spiel. Die Sache mit dem Shareholder Value: Wo er herkommt. Und wo er hinführt". In *brand eins*, Hamburg, number 8, pp. 73-79.

Hamel, J., Dufour, S., and D. Fortin (1993). *Case study methods*. Sage Publications: Newbury Park.

Hancké, B. (1998). "Industrial Restructuring and Industrial Relations in the European Car Industry". Discussion paper, FS I 98-305, Wissenschaftszentrum Berlin für Sozialforschung (WZB).

Hansmann, H. and R. Kraakman (2000). "The end of the history of corporate law". *Georgetown Law Journal,* volume 89, pp. 439-468.

Harris, F.H.deB., Jarrell, S.L., McInish, T.H., and R.A. Wood (2004). "Minority Shareholder Expropriation and Asymmetric Information Flows in a Global Registered Share: the Saga of Daimler Chrysler". Working paper, number 60/2004, European Corporate Governance Institute (ECGI).

Helmis, S. (2002). "Corporate Governance in Deutschland: Eigentums- und Kontrollstrukturen und rechtliche Rahmenbedingungen in der ‚Deutschland AG' ". Working paper, number 03/02, Institute for Mergers and Acquisitions, September.

Hill, R. (1994). *Euromanagers and Martians.* Europublications: Brussels.

Hirschman, A. (1970). *Exit, Voice, and Loyalty: Responses to decline in Firms, Organizations, and States.* Harvard University Press: Cambridge.

Holmström, B. (1999). "Future of cooperatives: a corporate perspective". In *The Finnish Journal of Business Economics,* volume 4, number 48, pp. 404-417.

Höpner, M. (2001). "Corporate governance in transition: Ten empirical findings on shareholder value and industrial relations in Germany". Discussion paper, number 01/5, Max-Planck-Institut für Gesellschaftsforschung, October.

Höpner, M. (2003). *Wer beherrscht die Unternehmen? Shareholder Value, Managerherrschaft und Mitbestimmung in Deutschland.* Campus Verlag: Frankfurt am Main.

Hopt, K.J. (1995). "The German Two-Tier Board (Aufsichtsrat): A German View on Corporate Governance". In *Comparative Corporate Governance* edited by Hopt, K. J. and E. Wymeersch, Walter de Gruyter: Berlin, pp. 3-20.

Hopt, K., Kanda, H., and M.J. Roe (1998). *Comparative Corporate Governance: The State of the Art and Emerging Research.* Oxford: Oxford University Press.

Huberman, A.M. and M.B. Miles (1994). "Data management and analysis methods". In *Handbook of qualitative research* edited by Denzin, N.K. and Y.S. Lincoln, Sage: Thousand Oaks, pp. 428-444.

Hussinger, K. (2005). "Concentration on Core Competencies Drive Merger and Acquisition Activities in the 1990s: Empirical Evidence for Germany". Discussion paper, number 05/41, Centre for European Economic Research.

Hutter, S. and M. Leppert (2000). "Stock Offerings in Germany". *In Corporate Finance*, May, 2000, pp. 26-29.

Hutton, W. (1995). *The State We're In.* Vintage: London.

Jackson, G. (2001)."Comparative Corporate Governance: Sociological Perspectives". In *The Political Economy of the Company* edited by A. Gamble, G. Kelly, and J. Parkinson, Oxford University Press: Oxford.

Jackson, G., Höpner, M., and A. Kurdelbusch (2004). "Corporate Governance and Employees in Germany: Changing Linkages, Complementarities, and

Tensions". In *Corporate Governance and Labour Management* edited (2005) by H. Gospel and A. Pendleton, Oxford University Press: Oxford, pp. 84-121.

Jackson, G. and S. Vitols (2000). "Pension Regimes and Financial Systems: Between Social Security, Market Liquidity and Corporate Governance". In *Varieties of Welfare* edited by Ebbinghaus, B. und P. Manow, Routledge: London.

Jensen, M. and W. Meckling (1976). "Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure". In *Journal of Financial Economics,* volume 3, number 4, pp. 305-360.

Jones, T. and A.C. Wicks (1999). "Convergent Stakeholder Theory". In *Academy of Management Review*, volume 24, number 2, pp. 206-221.

Jürgens, U. (2003). "Characteristics of the European Automotive system: Is There a Distinctive European Approach?". Discussion paper, SP III 2003-301, Wissenschaftszentrum Berlin für Sozialforschung (WZB).

Jürgens, U. and M. Krzywdzinski (2006). "Globalisierungsdruck und Beschäftigungssicherung – Standortsicherungsvereinbarungen in der deutschen Automobilindustrie zwischen 1993 und 2006". Discussion paper, SP III 2006-303, Wissenschaftszentrum Berlin für Sozialforschung (WZB).

Jürgens, U., Krzywdzinski, M. and C. Teipen (2006). "Changing Work and Employment Relations in German Industries - Breaking Away from the German Model?". Discussion paper, SP III 2006-302, Wissenschaftszentrum Berlin für Sozialforschung (WZB).

Jürgens, U., Naumann, K. and J. Rupp (2000). "Shareholder value in an adverse environment: the German case". In *Economics and Society*, volume 29, pp. 54-79.

Jürgens, U., Rupp, J. and K. Vitols (2000). "Corporate Governance and Shareholder Value in Deutschland". Discussion paper, Wissenschaftszentrum Berlin für Sozialforschung (WZB).

Kaplan, S.N. (1994). "Top Executives, Turnover, and Firm Performance in Germany". In *Journal of Law, Economics, and Organization,* volume 10, number 1, pp. 142-159.

Kaplan, S.N. (1997). "Corporate Governance and Corporate Performance: A Comparison of Germany, Japan and the U.S.". In *Comparative Corporate Governance*, edited by Hopt, K. J. and E. Wymeersch, Walter de Gruyter: Berlin, pp. 195-210.

Karolyi, A. (2003). "DaimlerChrysler AG: The first truly global share". In *Journal of Corporate Finance*, volume 9, number 4, pp. 409-430.

Karsch, W. (2002). "Der DAX unter der Lupe: Unternehmensstrukturen im Zeichen der Globalisierung". In *die bank*, number 12, pp. 6-12.

Kay, J. (1995). *Why Firms Succeed.* Oxford University Press: New York.

Kelly, G., Kelly, D., and A. Gamble (1997). *Stakeholder Capitalism.* Macmillan Press: London.

Keltner, B. "Relationship Banking and Competitive Advantage: Evidence from the U.S. and Germany". In *California Management Review*, volume 37, number 4, pp. 45-71.

Knauss, J. (1998). "Modular Mass Production: High Performance on the Low Road". In *Politics and Society*, pp. 273-296.

Kogut, B. and G. Walker (2001). "The small world of Germany and the durability of national networks". *American Sociological Review*, volume 66, number 3, pp. 317-335.

Koza, M. and A. Lewin (1999). "The Coevolution of Network Alliances: A Longitudal Analysis of an Internatonal Professional Network". In *Organization Science*, volume 10, number 5, pp. 638-653.

Kuhn, T.S. (1996). *The Structure of Scientific Revolutions.* 3rd edition, University of Chicago Press: Chicago and London.

Kürsten, W. (2006). *Offenlegung von Managergehältern und Corporate Governance – Finanztheoretische Anmerkungen zur aktuellen Kapitalismusdebatte-.* Working paper, Friedrich-Schiller-Universität Jena.

Küting, K., Pfitzer, N., and C.P. Weber (2004). *Herausforderungen und Chancen durch weltweite Rechnungslegungsstandards – Kapitalmarktorientierte Rechnungslegung und integrierte Unternehmenssteuerung.* Schäffer-Poeschel Verlag: Stuttgart.

Lane, C. (1993). *Management and labour in Europe: the Industrial Enterprise in Germany, Britain and France.* Edward Elgar: Aldershot, UK.

Lane, C. (2000). "Changes in corporate governance of German corporations: convergence to the Anglo-American model?". In *Competition and Change,* volume 7, pp. 79-100.

LaPorta, R., Lopez-de-Silanes, F., and A. Shleifer (1999). "Corporate Ownership around the World". In *Journal of Finance,* volume 54, number 2, pp. 471-517.

LaPorta, R., Lopez-de-Silanes, F., Shleifer, A., and R.W. Vishny (1998). "Law and Finance". In *Journal of Political Economy*, volume 106, number 6, pp. 1113-1115.

Lehbrink, H. and R.W. Schlegelmilch (1997). *Mercedes*. Konemann Verlag: Hamburg.

Lewis, T.J., Machold, S., Oxtoby, D., and P.K. Ahmed (2004). "Employee roles in governance: contrasting the UK and German experience". In *Corporate Governance*, volume 4, number 4, pp. 16-18.

Logue, D.E. and J.K. Seward (1999). "Anatomy of a governance transformation: The case of Daimler-Benz". In *Law and Contemporary Problems*, volume 62, number 3, pp. 87-112.

Lütz, S. (1998). "The revival of a nation-state? Stock exchange regulation in an era of globalized financial markets". In *Journal of European Public Policy*, volume 5, number 1, pp. 153-169.

Lütz, S. (2000). *From Managed to Market Capitalism? German finance in Transition.* MPIfG Discussion paper, number 00/7, Max Planck Institute for the Study of Societies.

Lütz, S. (2002). "From Managed to Market Capitalism? German Finance in Transition". In *German Politics*, volume 9, number 2, pp. 149-171.

MacAvoy, P.W. and I.M. Millstein (2003). *The recurrent crisis in corporate governance.* Stanford University Press: Stanford.

MacCahery, J. A., Moreland, P., Raaijmakers, T., and L. Renneboog (2002). *Corporate Governance Regimes: Convergence and Divergence.* Oxford University Press: Oxford.

McAlinden, S.P. and D.J. Andrea (2002). "Estimating the New Automotive Value Chain: A Study Prepared for Accenture". Study paper, Center For Automotive Research (CAR) and Altarum Institute.

McLaughlin, A.M. and W.A. Maloney (1999). "The European Automobile Industry: Multi-Level Governance, Policy and Politics". Routledge: London/New York.

Marens, R., and A.C. Wicks (1999). "Getting Real: Stakeholder Theory, Management Practice, and the General Irrelevance of Fiduciary Duties Owed to Shareholders". In *Business Ethics Quarterly*, volume 9, number 2, pp. 273-293.

Mole, J. (1990). *Mind Your Manners.* The Industrial Society: London.

Nolan, N. (2002). "Crafting a vision at DaimlerChrysler". Case study, Richard Ivey School of Business, University of Western Ontario, Harvard Business Review Press: Boston.

Ooghe, H. and T. De Langhe (2002). "The Anglo-American versus the Continental European corporate governance model: empirical evidence of board composition in Belgium". In *European Business Review,* volume 14, number 6, pp. 437-449.

Paine, L.S. (2002). *Value Shift: Why Companies Must Merge Social and Financial Imperatives to Achieve Superior Performance.* McGraw-Hill: New York.

Parkinson, J. (1998). "Reforming Directors Duties". Policy Paper, number 12, University of Bristol.

Perry, T. and M. Zenner (2000). "CEO Compensation in the 1990s: Shareholder Alignment or Shareholder Expropriation?". In *The Wake Forest Law Review*, volume 35, pp.123-152.

Philips, R. (2003). *Stakeholder Theory and Organizational Ethics.* Berrett-Koehler Publishers: San Francisco.

Poensgen, O. (1982). "Der Weg in den Vorstand: Die Charakteristiken der Vorstandsmitglieder der Aktiengesellschaften des verarbeitenden Gewerbes". In *Die Betriebswirtschaft*, number 42, pp. 3-25.

Porter, M. (1990). *The Competitive Advantages of Nations.* The Free Press: New York.

Post, J.E., Preston, L.E., and S. Sachs (2002). *Redefining the Corporation: Stakeholder Management and Organizational Wealth.* Stanford University Press: Palo Alto.

Pries, L. (1999). "The dialectics of automobile assemblers and suppliers restructuring and globalization of the German 'Big Three'". In *Actes du GERPISA* 25, 1999, pp. 77-91.

Prowse, S. (1994). “Corporate Governance in an International Perspective: A Survey of Corporate Control Mechanisms among Large Firms in the US, the UK, Japan and Germany”. Economic Papers, number 41, Bank for International Settlements (BIS): Basel.

Rädler, G. (2003). “The DaimlerChrysler merger (A): Gaining global competitiveness”. Case study, number 130, IMD international, Harvard Business Review Press: Boston.

Rädler, G. (2003). “The DaimlerChrysler merger (B): Shaping a transatlantic company”. Case study, number 131, IMD international, Harvard Business Review Press: Boston.

Randlesome, C. (2000). "Changes in Management Culture and Competencies the German Experience". In *The Journal of Management Development*, volume 19, number 7, pp.629-642.

Randlesome, C. (2002).”Diversity of Europe’s business culture under threat?”. In *Cross Cultural Management : An International Journal*, volume 9, issue 2, pp. 65-76.

Rappaport, A. (1986). *Creating Shareholder Value.* The Free Press: New York.

Regan, J.G. (1992). “Hoesch Krupp Charts Growth”. In *American Metal Market*, published on July 31, 1992, p. 3.

Roe, M.J. (2003). *Political Determinants of Corporate Governance: Political context, Corporate impact.* Oxford University Press: Oxford.

Rothman, A. and R. Spielberg (1998). "Flamboyant Executive Is Famous For His Risk-Taking". The Seattle Times, Bloomberg News, published on May 07, 1998.

Sauve, A. and M. Scheuer (eds.) (1999). *Corporate finance in Germany and France: A Joint Research Project of the Deutsche Bundesbank and the Banque de France*. Deutsche Bank: Frankfurt am Main.

Schmidt, R.H. (2004). "Corporate Governance in Germany: An Economic perspective". In *The German Financial System* edited by Krahnen, J.P. and R.H. Schmidt, Oxford University: Oxford, pp.386-424.

Schmidt, R. and M. Tyrell (1997). "Financial systems, corporate finance and corporate governance". *European Financial Management,* volume 3, number 3, pp. 333-361.

Schmidt, R.H. and G. Spindler (1999). "Path Dependence, Corporate Governance and Complementarity – A Comment on Bebchuk and Roe". Working paper, number 27, Johann Wolfgang Goethe-Universität: Frankfurt am Main.

Schmidt, R.H. and G. Spindler (2004). "Path dependence in corporate ownership and governance". In *Convergence and Persistance in Corporate Governance* edited by Gordon, J.N. and M.J. Roe, Cambridge University Press: Cambridge, pp. 114-158.

Sengenberger, W. (1987). *Struktur und Funktionsweise von Arbeitsmärkten: Die Bundesrepublik Deutschland im internationalen Vergleich.* Campus: Frankfurt am Main.

Shaw, R. (2000). "Shareholder Value or Stakeholder Value?". In *Shareholder Value Management in Banks* edited by Schuster, L., MacMillan Press: Hampshire.

Shleifer, A., and R.W. Vishny (1997). "A survey of Corporate Governance". In *Journal of Finance,* volume 52, number 2, pp. 737-783.

Siebert, H. (2004). "Germany's Capital Market and Corporate Governance". Working paper, number 1206, Kiel Institute for World Economics.

Singh, A., Glen, J., Zammit, A. et al. (2005). "Shareholder value maximisation, stock market and new technology: should the US corporate model be the universal standard?". Working paper, number 315, University of Cambridge.

Solimano, A. (2006). "The International Mobility of Talent and its Impact on Global Development". Discussion paper, number 2006/08, United Nations University, World Institute for development Economics Research.

Steiger, M. (2000). "Institutionelle Investoren im Spannungsfeld zwischen Aktienmarktliquidität und Corporate Governance". In *ZEW Wirtschaftsanalysen*, volume 47, pp. 1-352.

St. Jean, D. (2004). "DaimlerChrysler Merger: The quest to create on company". Case study, number 41, William F. Galvin Center for Global Entrepreneurial Leadership, Harvard Business Review Press: Boston.

Subramanian, G. (2002). *The influence of anti-takeover statutes on incorporation choice.* University of Pennsylvania, *Law Review*, volume 150.

Sundaram, A.K. and A.C. Inkpen (2004). "Stakeholder Theory and 'The Corporate Objective Revisited': A Reply". In *Organization Science,* volume 15, number 3, pp. 350-363.

Thomsen, S. (2004). "Corporate values and corporate governance". In *Corporate Governance,* volume 4, number 4, pp. 29-46.

Thurow, L. (1992). *Head to Head: The Coming Economic Battle among Japan, Europe and America.* Morrow: New York.

Tuschke, A., and G. Sanders (2003). "Antecedents and consequences of corporate governance reform: the case of Germany". In *Strategic Management Journal*, volume 24, issue 7, pp. 631-649.

Tyrell, M. (2006). "Internationales Finanzmanagement II". Lecture paper, number 6, University of Trier and Goethe University Frankfurt.

Vagts, D. (1966). "Reforming the ‚modern' corporation: Perspectives from the German". In *Harvard Law Review*, volume 80, number 1, pp. 23-59.

Van Hoek, R.I. and H.A.M. Weken (2000). "SMART (car) and smart logistics: a case study in designing and managing an innovative de-integrated supply chain". Case study, Council of Logistics Management.

Vitols, S. (1999). "The Reconstructing of German Corporate Governance: Capital Market Pressures or Managerial Initiatives?". Paper prepared for the conference 'The Political Economy of Corporate Governance in Europe and Japan', European University Florence, June 10-11.

Vitols, S. (2003). "Negotiated Shareholder Value: The German Version of an Anglo-American Practice". Discussion paper, number 25, Wissenschaftszentrum Berlin.

Vlasic, B. and B. Stertz (2000). *Taken for a ride: How Daimler-Benz Drove off with Chrysler.* William Morrow: New York.

Wedderburn, A. (1985). "The Legal Development of Corporate Responsibility". In *Corporate Governance and Directors Liabilities* edited by Hopt, J.K. and G. Teubner, pp. 3-54.

v.Werder, A. and T. Talaulicar (2006). "Corporate governance developments in Germany". In *Handbook on International Corporate Governance: Country Analyses* edited by Mallin, C.A., Edward Elgar: Cheltenham, pp. 28-44.

William, E. and R.E. Freeman (1993). "A Stakeholder Theory of the Modern Corporation". In *Journal of Behavioral Economics*, volume 19, number 4, pp. 337-359.

Wojcik, D. (2001). "Change in the German Model of Corporate Governance: Evidence from Blockholdings 1997-2001". Working paper, University of Oxford.

Wolfensohn, J.D. (1999). "A Proposal for a Comprehensive Development Framework". Draft for discussion, World Bank: Washington DC.

Wolters, H. (1995). *Modul- und Systembeschaffung in der Automobilindustrie.* Gabler: Wiesbaden.

Womack, J.P., Jones, D.T., and D. Roos (1992). *Die zweite Revolution in der Autoindustrie.* Campus Verlag: Franfurt am Main.

Yin, R. (1984). *Case study research: Design and methods.* Sage Publications: London.

Yin, R. (1993). *Applications of case study research.* Sage Publications: Beverly Hills.

Yin, R.K. (1994). *Case Study Research: Design and Methods.* 2nd Edition, Sage Publications: London.

Zajac, E.J., and P.C. Fiss (2001). "The unusual diffusion of a new corporate ideology: The case of shareholder value orientation in Germany". Working paper, Northwestern University Kellogg Graduate School of Management.

Ziegler, N. (2000). "Corporate Governance and the Politics of Property Rights in Germany". In *Politics and Society*, volume 28, pp. 195-221.

Zysman, J. (1983). *Governments, Markets and Growth.* Cornell University Press: Ithaca.

PRESS ARTICLES

Allaire, Y. and M.E. Firsirotu (2007). "À qui l'appartient l'entreprise?". Forces, published on May 22, 2007, Montréal.

Burt, T. and R. Lambert (2000). "The Schrempp Gambit". Financial Times, published on October 30, 2000, London, p.26.

Dow Jones Business News (DJBN) (1998). "DaimlerChrysler Appoints New Supervisory, Management Boards". DJBN, published in December 1998, New York.

Dunsch, J. (2000). "Die umstrittenen Konzernlenker". Frankfurter Allgemeine Zeitung (FAZ), published on March 4, 2004, Frankfurt am Main.

Financial Times (1999). "Interview with World Bank President Wolfensohn". Financial Times, published on June 21, 1999.

Frankfurter Allgemeine Zeitung (FAZ) (2004a). "Schrempp und Kopper sichern ihre Macht bei Daimler". FAZ, published on April 5, 2004, Frankfurt am Main.

Frankfurter Allgemeine Zeitung (FAZ) (2004b). "Schrempps Seelenverwandter". FAZ, published on August 8, 2004, Frankfurt am Main.

Frankfurter Allgemeine Zeitung (FAZ) (2005a). "Schrempps geht – was macht Cordes?". FAZ, published on July 28, 2005, Frankfurt am Main.

Frankfurter Allgemeine Zeitung (FAZ) (2005b). "Mercedes baut 8500 Stellen ab". FAZ, published on September 28, 2005, Frankfurt am Main.

Frankfurter Allgemeine Zeitung (FAZ) (2005c). "Veränderungen in der deutschen Automobilindustrie". FAZ, published on December 14, 2005, Frankfurt am Main.

Frankfurter Allgemeine Zeitung (FAZ) (2006). "Auch Deutsche woollen zu den Gewinnern zählen". FAZ, published on July 2, 2006, Frankfurt am Main.

Handelsblatt (2006). "Ruf in Gefahr". Handelsblatt, published on August 15, 2006.

Handelsblatt (2007). "Siegeszug der Hedge-Fonds". Handelsblatt, published on July 18, 2007.

Landler, M. (2007). "Daimler's sale of Chrysler seems inevitable". International Herald Tribune, published on April 4, 2007, Paris.

Malkin, L. (1992). "A glacial U.S. response to German listing plea". International Herald Tribune, published on April 28, 1992, Paris.

New York Times (1999). "International Business; Extracting Value From Deutsche Bank's Motley Holdings". New york Times, published on August 13, 1999.

New York Times (2007). "Chrysler sold to private firm". New York Times, published on May 15, 2007.

Preuß, S. (2005). "Soviel Vertrauensvorschuß ist eine Hilfe – und auch eine Verpflichtung". FAZ, published on November 4, 2005, Frankfurt am Main.

Spiegel (1998). "Fusionsfieber: Konzerne ohne Heimat". Spiegel, number 49, published on November 30, 1998, Hamburg, pp. 94-97.

Wall Street Journal (1996a). "Dresdner Bank Posts 17% Profit Rise for '95 and Discloses Hidden Reserves". Wall Street Journal, published on February, 1996, p. 3.

Wall Street Journal (1996b). "German Firms' Disclosure Faulted". Wall Street Journal, published on July 23, 1996, p. 18.

Wihofszki, O. (2007). "Kerkorian-Offerte steigert Chryslers Marktwert". Financial Times Deutschland, published on April 11, 2007, Frankfurt am Main.

Zeit (2006). "Was tat Kopper?". Zeit, published on January 19, 2006.

CORPORATE DATA

Daimler-Benz (1991). *Daimler-Benz Annual Report 1990*. Daimler-Benz: Stuttgart.

Daimler-Benz (1992). *Daimler-Benz Annual Report 1991*. Daimler-Benz: Stuttgart.

Daimler-Benz (1993). *Daimler-Benz Annual Report 1992*. Daimler-Benz: Stuttgart.

Daimler-Benz (1994). *Daimler-Benz Annual Report 1993*. Daimler-Benz: Stuttgart.

Daimler-Benz (1995). *Daimler-Benz Annual Report 1994*. Daimler-Benz: Stuttgart.

Daimler-Benz (1996). *Daimler-Benz Annual Report 1995*. Daimler-Benz: Stuttgart.

Daimler-Benz (1997). *Daimler-Benz Annual Report 1996*. Daimler-Benz: Stuttgart.

Daimler-Benz (1998a). *Daimler-Benz Annual Report 1997*. Daimler-Benz: Stuttgart.

Daimler-Benz (1998b). *Daimler-Benz Financial Resume 1988-1997*. Daimler-Benz: Stuttgart.

DaimlerChrysler (1999). *DaimlerChrysler Annual Report 1998*. DaimlerChrysler: Stuttgart.

DaimlerChrysler (2000). *DaimlerChrysler Annual Report 1999*. DaimlerChrysler: Stuttgart/Auburn Hills.

DaimlerChrysler (2001). *DaimlerChrysler Annual Report 2000*. DaimlerChrysler: Stuttgart/Auburn Hills.

DaimlerChrysler (2002). *DaimlerChrysler Annual Report 2001*. DaimlerChrysler: Stuttgart/Auburn Hills.

DaimlerChrysler (2003). *DaimlerChrysler Annual Report 2002*. DaimlerChrysler: Stuttgart/Auburn Hills.

DaimlerChrysler (2004). *DaimlerChrysler Annual Report 2003*. DaimlerChrysler: Stuttgart/Auburn Hills.

DaimlerChrysler (2005). *DaimlerChrysler Annual Report 2004*. DaimlerChrysler: Stuttgart/Auburn Hills.

DaimlerChrysler (2006). *DaimlerChrysler Annual Report 2005*. DaimlerChrysler: Stuttgart/Auburn Hills.

INTERNET REFERENCES

Berlin Centre of Corporate Governance (2007). *Publikationen*. Last update on 05/07/2007. Website (url): http://www.bccg.tu-berlin.de/, last consulted on 05/07/2007.

Bundesverband Deutscher Kapitalbeteiligungsgesellschaften (BVK) (2007). BVK statistics 2007. Last updated in 01/07/2007. Website (url): http://www.bvk-ev.de/privateequity.php/cat/68/aid/281/title/BVK_Statistics_2007, last consulted on 12/07/2007.

Commission of the German Corporate Governance Code (2006). *The German Corporate Governance Code.* Last update on 31/12/2006. Website (url): http://www.corporate-governance-code.de/index-e.html, last consulted on 24/01/2007.

DaimlerChrysler (2007). *Investor Relations.* Last update on 04/07/2007. Website (url): http://www.daimlerchrysler.com/dccom/0-5-7164-49-631026-1-0-0-0-0-0-8-7164-0-0-0-0-0-0-0.html, last consulted on 05/07/2007.

DaimlerChrysler (2007). *Corporate Profile.* Last update on 04/07/2007. Website (url): http://www.daimlerchrysler.com/dccom/0-5-7155-1-630866-1-0-0-0-0-0-8-7145-0-0-0-0-0-0-0.html, last consulted on 05/07/2007.

DaimlerChrysler (2007). *Brands & Products.* Last update on 04/07/2007. Website (url): http://www.daimlerchrysler.com/dccom/0-5-7163-1-633118-1-0-0-0-0-0-8-7163-0-0-0-0-0-0-0.html, last consulted on 05/07/2007.

Deutsche Bank (2007). *Basel II.* Last update on 04/07/2007. Website (url): http://www.deutsche-bank.de/pbc/content/finanzierung-baselII.html?link=search_pbc-pbcde-to-finanzierung-baselII&dbiquery=1%3ABasel+I, last consulted on 05/07/2007.

European Corporate Governance Institute (2007). *Publications.* Last update on 04/07/2007. Website (url): http://www.ecgi.org/wp/wp_id.php?id=215, last consulted on 05/07/2007.

Institut für Management (2007). *Publikationen.* Last update on 04/07/2007. Website (url): http://www2.wiwi.hu-berlin.de/institute/im/d/publikationen, last consulted on 05/07/2007.

Management Centre St. Gallen (2007). Malik on management. Last update 04/07/2007. Website (url): http://www.mom.ch/htm/353/en/Malik_Column.htm, last consulted on 05/07/2007.

Encyclopaedia Britannica (2007). *Corporate Governance*. Last update 13/02/2007. Website (url): http://www.britannica.com, last consulted on 15/02/2007.

Organisation Internationale des Constructeurs d'Automobiles (OICA) (2007). *OICA Statistics*. Last update 04/04/2007. Website (url): http://www.oica.net/htdocs/statistics/statistics.htm, last consulted on 14/07/2007.

Organisation for Economic Development and Cooperation (OECD) (2004). *OECD Principles of Corporate Governance*. Last update 01/07/2004. Website (url): http://www.oecd.org/dataoecd/32/18/31557724.pdf, last consulted on 12/01/2007.

Security Exchange Commission (SEC) (1999). *SEC 1999 Annual Performance Report; 2001 Annual Performance Plan.* Last update 17/11/2006. Website (url). www.sec.gov/ images/smcpgdp.gif., last consulted on 17/11/2007.