

# BMW – MASTERING THE CRISES WITH “NEW EFFICIENCY?”

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## ABSTRACT

*Purpose – Make a contribution on company business models and typical reactions to economic crises.*

*Design/methodology/approach – Media-analysis-based case study.*

*Findings – Crisis is handled through drawing on a strategy deriving from the typical features of the company; through the crisis these features are even intensified.*

*Research limitations/implications – Multinational companies are complex and only transparent to a small degree; the empirical data therefore rests on a database with articles.*

*Social implications – Social implications can be seen at the BMW as a functioning example for social partnership as a form of economic embeddedness at the societal level.*

**Keywords:** Automobile industry; business system; financial crisis; BMW

The financial and economic crisis of 2008–2009 hit the global players of the automobile industry in quite different ways. While the US-American companies Ford, General Motors, and Chrysler underwent existential turbulences, Chinese and Indian Original Equipment Manufacturers (OEMs) were almost not affected by the economic instabilities caused by the crisis. In Europe, due to public programs of replacing old cars by new ones, the so-called car-wrecking scheme, most of the carmakers were less affected than expected. Mainly those specialized in manufacturing small and medium as well as low fuel consuming cars (like Renault, PSA, Ford, and General Motors Europe) even increased sales in certain countries and for a certain moment – mainly in 2009 – in sales of fuel efficient cars. The German carmakers, mostly focused on the premium segment of small, medium, and big vehicles, felt the impact of the crisis much more intensively than other automobile companies. Mainly the smaller companies, Audi, BMW, Daimler, and Porsche, as located almost completely in the premium segment, lost dramatically in sales and profits from 2009 until spring 2010.

The financial crisis of 2008 worked ironically as a catalyst for the BMW group in what was designed already in 2007 as a huge program of restructuring and efficiency improvement. The annual report 2007 already outlined the strategic aims of the company for the first two decades of the new century at an early point in time: the program called Strategy Number ONE (the capital letters standing for “new opportunities” and “new efficiency”) focused on rationalization of efforts in the products and in production as well: “In a nutshell: we will make best use of new opportunities and reach a new efficiency level so as to guarantee the BMW Group’s lead over competitors as well as the power and independence to shape the company’s future actively” (BMW, 2007, p. 25). The term *efficiency* turned out to be the new driving force which could integrate engineers’ professionalism and efforts of developing cars, adapted to the new challenges of reducing carbon dioxide emissions and fuel efficiency. At the same time efficiency was also the central term for saving costs and restructuring of production processes and human resource policies.

Jointly with the “Program Number ONE” BMW declared to strive for the position of the worldwide leading premium producer. This was a clear challenge toward Daimler and Audi, BMW’s two major competitors in the premium segment. So when the new Strategy “Number ONE” was declared in 2007, it was still difficult to mobilize management and workers and also the public attention toward this new and challenging program. Due to the financial crisis, the dramatically worsening situation of the company, the

need for improvements on different levels became obvious. How did BMW respond to these challenges during the five years after the crisis? Could the company survive as a small stand-alone producer or was it looking for strategic alliances? Could the company maintain the product strategy of high potential dynamic premium cars and, at the same time, turn to a greening strategy? Did the specific pattern of labor relations as “conflictive cooperation” between management, works council and union persist or experience a dramatic shift? The aim of the following sections is to answer these questions by analyzing the four dimensions of the BMW business model: (1) the company structure and profit strategy, (2) the product structure and market strategy, (3) the production system, and (4) the labor relations and work policy. Based on a brief illustration of the company-specific background, that is, the “BMW trajectory” (in the section “The BMW Trajectory in a Nutshell”), as well as some key information about the current economic stance of the company, the recent development in these four dimensions will be analyzed in greater detail (in the sections “Company Structure and Profit Strategy,” “Product Structure and Market Strategy,” “Production System and Strategy,” and “Labor Relations”) and some conclusions will be drawn in the last section.

## THEORETICAL CONSIDERATIONS AND METHODOLOGICAL FRAMING

The financial crisis of 2008 has illustrated the vulnerability of the economy that has – in a [Polanyi \(1957\)](#) sense – to a large degree been disembedded from its social and political entanglement. When looking at how different national settings have influenced the ways in which constellations of social partners and the state have managed to steer through the crisis, one can encounter differences, depending on the institutional settings of different countries ([Lehndorff, 2012](#)). From such a comparative perspective ([Frege & Kelly, 2013](#)), the German settings stands out with two distinctive features – an economic model of diversified quality production ([Streeck, 1991](#)) as well as a set of labor relations that has been summed up under the term of “social partnership.” As the automotive sector – and especially its OEMs – can count as the showcase of this national model, our study of BMW illustrates how crisis management emerges from micro-initiatives run on company level. By taking on a relational perspective on management- as well as labor-side engagement, we attempt to integrate the

disciplinary viewpoints of business studies (Sitkin & Bowen, 2010) and industrial relations research.

As sociological research on companies is a rather difficult process, making scientific statements on the social processes going on in and between corporate actors involved in international business often requires particular research strategy. The information we are using in this paper is based on a database comprising different kinds of empirical findings on the performance of the German carmakers between 2008 and 2013.<sup>1</sup> To arrange these raw data in a manner that makes our findings intelligible makes our findings intelligible with theory of the above mentioned sub-disciplines, we are drawing on a meso-level theory of the company, proposed by Pries (1991). Here, the author distinguishes between four “transformational spaces”: company structure/profit strategy (1), product structure/market strategy (2), production system (3), and work organization/labor relations (4). Pries manages to differentiate between different reference systems of company performance (for similar dimensions see Boyer & Freyssenet, 2002; Jullien & Pardi, 2013). This framework enables us to arrange our data in order to give a coherent overview about BMW’s measures to overcome the crisis. Before the single dimensions will be introduced further below, a historical reconstruction of the particular BMW trajectory (Freyssenet, 2009) will serve as an informative basis for the following description.

## THE BMW TRAJECTORY IN A NUTSHELL

The specific development path of the BMW company (with the abbreviation standing for “Bayerische Motoren Werke,” i.e., Bavarian Motor Works) can be traced back to the early decades of the 20th century, when in 1916 the Bavarian Aerospace Factories were founded.<sup>2</sup> As the name suggests, the company’s main product were engines used in airplanes, but within less than fifteen years the product range was broadened to embrace motorcycles (1923) and cars (1929), after taking over a factory in Eisenach, Thuringia. While the “Dixi” – a relatively small vehicle originally produced at the old Eisenach plant – was not an original BMW-creation, the first “real” BMW named AM1 (“Automobilkonstruktion München Nr. 1”) followed in 1932, was significantly bigger and more sophisticated than the AM1.

After the German NSDAP took over the government in 1933, BMW experienced a strong economic increase, caused by the military upgrading

induced by the Nazis. While the company’s turnover was at 32.5 million “Reichsmark” in 1933, it rose up to 280 million in 1939. A dark chapter in BMW’s history can surely be found in the employment of forced laborers and “Aryanization” of Jewish means of production, as happened in the case of the Argus Motoren Gesellschaft. With its core plant bombed out by the Allied Forces, after the war BMW got along by building motorcycles mainly, but also extending its activities to the production of pots and brakes. In 1952 with the BMW 501 a relatively luxury vehicle was introduced. However, this project did not turn out to be compatible with the contemporary market structure. Together with shrinking demands for motorcycles, the company development steered into a sales crisis. At the end of 1959, the Bavarian company found itself struggling hard with financial problems, leading to a series of takeover attempts by companies, such as General Electric, Ford, and AMC. Even BMW’s main competitor Daimler Benz made a takeover-bid. Finally, the hostile takeover could only be averted by the combined efforts of BMW workers and their works council as well as the company’s retailers and an aggregate of small shareholders.

To understand this development, it is necessary to take into account the stabilizing role of the Quandt family within the company’s ownership structure. Being of Dutch origin, through the 19th and 20th century, the family took on an important position within the German industry through accumulating shares in a number of important companies. After propagating its wealth in the course of World War Two (not least through the usage of forced labor), the major share of the family owning today results from investments placed after 1945 (see [Jungbluth, 2002](#)). By purchasing a major part of new shares that were distributed in the course of the company crisis, Quandt managed to reduce the influence of banks on the takeover attempts. Thanks to this engagement, the money raised in the course of the restructuring could be used to acquire capital for new research and development measures, necessary to provide models suitable for mass demand.

From 1970 to 1993 under the leadership of Eberhard von Kuenheim, the company managed to increase its sales up to 28 billion Deutsche Mark by introducing various product series, going along with a triple increase in employment from 23,000 to 71,000 within the same period. Here, company growth was not limited to the national level, as there were openings of plants in South Africa (1972) and Austria (1979), but BMW still remained an overwhelmingly German, and especially Bavarian company. A shift in the company strategy can be recognized in the early 1990s. As shown by [Eckardt, Köhler, and Pries \(2000\)](#), this period was of

crucial importance for a new orientation, anticipated to be of strategic necessity for the upcoming internationalization of customer and supplier relations. While supplier relations had always been playing a comparatively important role within the company framework (Pries, 2009, p. 335, 2006), BMW as the first German carmaker started their reorganization against the background of an increasingly internationalizing environment. A second strand of events can be found in BMW's attempt to rapidly internationalize not only sales, but also production. In this line, a new plant was opened in the United States in 1992 and the British Rover Group was taken over in 1994. Behind these strategic decisions was ambition to become a globally operating company and – mainly in the case of Rover – to extend toward a full range producer, satisfying mass demand with a preferably broad product range. To cause significant synergy effects, for example, in R&D processes aiming at a platform for vehicles running with front-wheel driving power, the British car manufacturer seemed to be a promising and appropriate partner. The Rover deal turned out to be unsuccessful (and highly unprofitable!) in general – but very successful in the part of acquiring the Austin Mini brand. At the beginning of 1999, CEO Bernd Pischetsrieder had to leave the company, and Norbert Reithofer took over as his follower. BMW's shares in Rover were sold out for a symbolic 10 pounds in 2000.<sup>3</sup>

From the beginning of the first decade of the new century employment, production, sales, and net profits increased constantly till 2007. Since 2008, BMW entered a quite turbulent and bumpy road. The basic indicators listed in Fig. 1 illustrate the recent developments of the Bavarian company. With about 1.5 Mio cars sold in 2010, BMW had almost recovered the level of the top year of 2007. The company was successful with all three brands: BMW, Mini, and Rolls Royce and was producing cars, car components, and/or assembling sets of CKDs (cars “completely knocked down”) in six plants in Germany (Dingolfing, Eisenach, Landshut, Leipzig, Munich, Regensburg, Wackersdorf), in Great Britain (Goodwood, Hams Hall, Oxford, Swindon), South Africa (Rosslyn), China (Shenyang), the United States (Spartanburg), Austria (Graz, Steyr), India (Chennai), Indonesia (Jakarta), Egypt (Cairo), Russia (Kaliningrad), Malaysia (Kuala Lumpur), and Thailand (Rayong).

How was it possible that BMW as a relatively small global player was able to survive and to even strengthen its global sales and production? The following sections will provide a differentiated overview about the recent strategic orientations of BMW during the crisis from 2008 to 2010 according to the strategic fields of the company structure and profit strategy, the

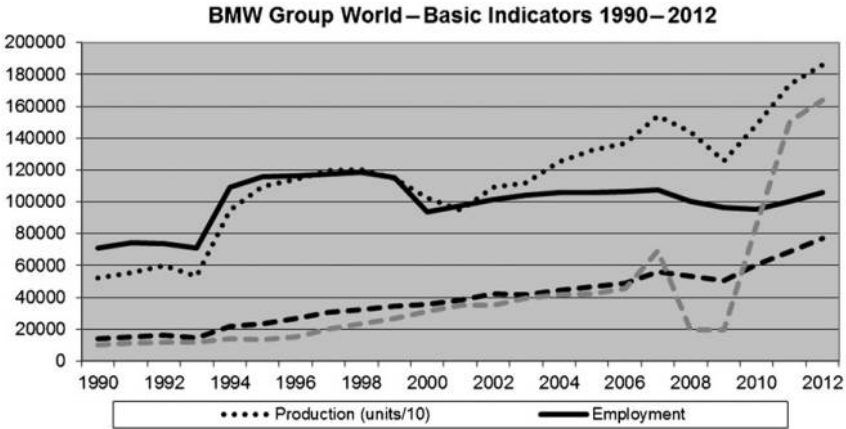


Fig. 1. Basic Indicators of the BMW Group (1990–2009). *Source:* Annual Reports.

product structure and market strategy, the production system, the labor relations and work policy.

## COMPANY STRUCTURE AND PROFIT STRATEGY

When BMW first experienced the financial crisis in 2008, it had just gone through the most successful year (2007) of its entire history. With 1.5 million cars sold and sales increased by 15 percent to 56 billion euros, the company broke its own records (namely, the last one of 2006) and impressively confirmed to be a serious worldwide competitor in the premium segment. In the first half of 2008, BMW was quite successful, selling more cars than expected, even on the highly competitive US market. Almost one-fifth of all cars of the brand BMW, Mini, and Rolls Royce were sold in the United States, revealing the high dependency of BMW of the North-American region. The problems began in the second half of the year 2008 when sales fell dramatically in the United States and in Europe.

Surprisingly, the value of the BMW shares did not fall in the same way as did sales and forecasted profitability. During the second half of 2008, BMW sales fell almost on a monthly basis by up to 10 percent, taking the whole year of 2008 the decrease was of about 6 percent to 1.2 million cars.

Additional problems were arising from the business unit, dealing with leasing contracts, having to buy back cars from customers unthrifty, not willing to adhere to their leasing contracts. After 15 months of constant growth, BMW not only underwent a strong negative development in sales but for the first time in the new century, BMW had to register losses.

In the further course of 2009 mainly due to the sales of small cars – the BMW 1 series, the Mini, and a new Roadster Z4 – the company showed a better performance than expected. But until the first half of 2009, the BMW brand sales decreased in almost one-third. Having sold 25 percent units less than at the same time in 2008 and ending up with a total loss of 55 million euros before tax and interests, BMW finally encountered a decrease of sales shrinkage, starting in April 2009. Against this background, BMW's announcement not to apply for financial support, granted by the government to companies struggling with the impact of the crisis, can be interpreted as a signal of sustainable strength.<sup>4</sup> A further sign for an upcoming consolidation was the end of short-time work at the Regensburg plant in early summer of 2009.<sup>5</sup> As the "Süddeutsche Zeitung" reported in August 2009, after two unprofitable quarters, BMW finally managed to get "back into the black."<sup>6</sup> Here, it is important to note that BMW – as the other premium manufacturers – could only gain minor benefits from the car scrapping schemes, which several European governments introduced to increase the demand. In November 2009 BMW began to sustainably drive out of the economic crisis by increasing its sales up to 107,000 units, reaching 11.5 percent more than in November 2008. Within the first quarter of 2010, the company managed to stabilize these new growth dynamics, ending up with worldwide sales of 315,600 cars. While this represents an increase of 13.8 percent as compared to the first quarter of 2009, similar growth rates are estimated for the previously less successful business in the German home-market for 2010.<sup>7</sup> Despite the impact of the economic crisis, in January 2010, BMW could announce a positive operating profit before tax for 2009.<sup>8</sup> As two further indicators for an eventual recovery appear, the 10 percent increase in productivity in 2010 (Fromm, 2010), as well as the ambitious goal of an 8–10 percent increase of earnings before interest and taxes until 2012, set in May 2010.<sup>9</sup> At the beginning of the same year, a study of the German "Institut für Automobilwirtschaft" estimates that BMW could reach a total sales volume of two million units.<sup>10</sup>

With regards to the marketing and sponsoring strategy, some significant changes came about, concerning the self-presentation of BMW as an ecologically conscious player. Not only did the company declare to pull out of the Formula 1 in July 2009 to take a firm stand for the promotion of



sustainably operating energies, at the same time it announced to appear as one of the main sponsors and the exclusive carmaker partner of the Olympic Games and Paralympics 2012 in London, as well as the Berlinale Movie Festival in Berlin. It remains an open question if the business contracts about consultancy services recently signed with former high-rank politicians Joschka Fischer and Madeleine Albright aim at anticipated marketing advantages of a similar kind or at a real expertise in terms of the prospective greening initiatives.<sup>11</sup> Summarizing, concerning company structure and profit strategy, there were some strategic divides and discussions, but the basic orientation of the brand, which is aiming at being renowned as one of the leading premium carmakers of the world with an image of sportive cars and of a high range of corporate social responsibility, remained stable. Crucial in this context is the fact that the BMW shares did not get under pressure in the same way as did those of other companies: the overall corporate business model still remained dominated by the Quandt family and its long-term profit strategy (Pries, 2009). In 2012, almost 47 percent of BMW shares were on hold by the Quandt family, which only in 2011 and 2012 made some 1.3 billion euros profit out of the BMW shares. But Quandt family’s engagement in BMW is just not primarily oriented on a short-term tactical thinking of profit maximizing, the family also maintained its investment and commitment with BMW in times of crisis and influenced the company’s course in a long-term strategic perspective.

## PRODUCT STRUCTURE AND MARKET STRATEGY

In looking at the product structure and market strategy, we differentiate between two dimensions: the international dispersion of sales as well as the engagement in achieving technological innovations. Concerning the first aspect, we will be focusing on BMW’s performance in the US-American, as well the Chinese markets and thus shed light on a traditional as well as a recently accessed sales opportunity. With regards to the second aspect, BMW’s (and thus also our) emphasis lies on R&D measures taken and realized (i.e., implemented in production) within the broader context of greening technologies.

To get an understanding of the economic developments which lead to the weaknesses encountered by the BMW Group, it is important to take into account the state of the US market, which makes up the most

important sales opportunities for the Bavarians. While in June 2008, BMW announced to invest a total of approximately 850 million euros in the United States,<sup>12</sup> the financial crisis hit the US customers shortly after, causing sales to drop to 146,138 units in the same month – a loss of 3 percent compared to the figures one year earlier, which can be interpreted as a trailblazer for the economic hardships yet to come. As Jim O'Donnell, chief executive for the macro-region of North-America, announced in September, the company felt obliged to reduce production due to decreasing sales figures. Thus, besides lowering its national earnings outlook, BMW took the decision to cancel the production of 25,000 cars in the Spartanburg plant and transfer an additional number of 20,000 cars to foreign markets, offering greater profits.<sup>13</sup> Luckily for BMW, booming sales of the first half of 2008 in Eastern Europe and Asia were increasing by 5 percent to almost 765,000 units and could compensate for the harshest losses.<sup>14</sup> In 2010, the German carmakers tried to push forward their expansion within the US market, taking advantage of the current weaknesses of their American competitors. The declared goal is an increase from 7 to 10 percent of the market share.<sup>15</sup>

The US market traditionally was the most important international business environment of BMW (at least concerning sales) with over 240,000 units sold in 2009 and 309,000 cars sold in 2013. But the so-called BRIC markets get to play an increasing role for international carmakers in general. This also holds for BMW, as is reflected by a 118 percent increase of sales to a total of 6,398 in Brazil as well as in India with a growth a rate of 24 percent to a total of 3,619 in 2009 – for a small premium car producer like BMW (and its clients) the effect of the crisis was not as tangible as for companies producing popular and mass vehicles. Nevertheless, the “big fish” within the Asian macro-region is surely to be caught in China, where BMW sold 90,536 cars in 2009, marking a growth rate of over one-third. In 2013, BMW sold 362,500 cars in China, almost 20 percent more than the year before. Such penetration of the Chinese market may well serve as some additional fuel to the fire of competition with the Audi company, which has been so lucky to set its foot into China as long as 20 years ago, selling 160,000 units in 2009 and almost 492,000 units in 2013 (a 21 percent increase as compared to 2012). With a 15 percent growth rate and 116,391 BMWs, Minis, and Rolls Royce models sold from March to April 2010, the Bavarian carmaker took the lead among the three big German premium manufacturers. For the first four months, sales sum up to a total of 432,037 units, a relative increase of 14 percent, compared to the former year. So in Germany and Europe in general, BMW was very successful

with introducing the new brand of the Mini. Efforts to move to the East were paid off in 2013, when the Chinese national economy with 20 percent of the units sold has finally become the company’s most important market with additional growth to be expected in the near future (Geinitz, 2014).

While from an international perspective most of the growth could be attained in the Chinese and US markets, sales in Germany still remain relatively stagnant.<sup>16</sup> Compared to the estimated average growth rate of the other branches of the automotive industry (3.5 percent), the premium segment is generally estimated to increase its sales at a slightly higher rate until 2015 (4 percent).<sup>17</sup> It is worth to mention that BMW was able to compensate stagnation of sales in one region by corresponding increase in other parts of the world. For instance, the overall growth rate of 10.6 percent in 2012 compared to 2011 was composed by 40 percent increase in China, 19 percent in Japan, 14 percent in the United States, but 0.7 percent stagnation in Germany (BMW, 2012, p. 24).

With BMW’s reaction to the challenges of the international car industry’s “Greening-Process,” we approach the second aspect of this section. The future significance of ecologically sustainable automotive solutions becomes apparent by looking at the annual North-American “International Auto Show” in Detroit, where literally all international carmakers present strong commitment in this manner. While planning to generally overhaul and advance 50 percent of their models between 2011 and 2013, BMW announced to allocate a million amount in a three-digit range in R&D measures for new technologies with a special focus on hybridization of driving technology.<sup>18</sup> If they accomplish this self-set goal, the Bavarians will measure a total reduction of CO<sub>2</sub>-emissions of 25 percent in the timeframe between 2008 and 2020 (Beise & Fromm, 2010). To reach this ambitious goal, the BMW group focuses mainly on more efficient Diesel engines. In May, the company presented a thermo-electrical generator for the series 5, allowing the transformation of heat into current, as a new “efficient mobility concept.”

At the end of 2008, BMW began to accelerate its strategies toward e-mobility in the same way as other international carmakers. In October, BMW announced a small fleet of 500 Minis with battery traction based on leasing contracts to be distributed in California, New York, and New Jersey. At the same time, Greenpeace and other critical observers criticized the German carmakers for mainly building big cars with high carbon dioxide emissions. Already in this context Greenpeace mentioned the BMW product spectrum as actually having reduced the carbon dioxide emission (from 196.4 grams/kilometer in 2002 it decreased to 173.1 in 2007).

In November 2008, the BMW group jointly with Vattenfall Europe (as one of the four biggest energy providers in Germany) announced a new project for a test of 50 Mini E in Berlin. In November 2009, the company also announced to develop full hybrid in its series 3–7 as well. This was part of a strategy to define itself in the context of the program ONE as one of the most sustainable car producers.

At the same time, BMW presented the car model *Active Hybrid X6* which drives with 485 horses and 780 newton-meters. Besides those general advancements of the product range, the broader greening strategy of BMW stands out through two *flagship projects*, likely to seminal for the future of the industry: as announced in the fall of 2008, the company developed a car, specially designed for inner-city traffic – available since November 2013 in Germany, the “i3,” which will be sold in the US market starting from the second quarter of 2014.<sup>19</sup> In order not to lose the driving dynamics while saving energy at the same time, BMW began to focus on carbon-based chassis, introduced into serial production in October 2009. The results are to be found in this currently developed model (Fromm, 2010b). The Megacity Vehicle will not only be path breaking from a profit angle, moreover the associated R&D process will serve as an important impulse of innovation for the entire company (Beise & Fromm, 2010). Additionally, with its new fuel-saving technology under the name of “Efficient Dynamics,” BMW is paving the way for a new generation of operating power. Core of the system is the so-called “Start-Stop-Technology,” which allows additional savings by turning off the engine at short-time stoppages, as for example at a traffic light, and restarting it, running on battery power. The 1.2 billion euros BMW invested in the programm “Efficient Dynamics” seem well invested: while the average emission of CO<sub>2</sub> is at only 154 grams per kilometer, Audi ranks 20 gram above this, not to speak of Mercedes with an even higher rate.

Through the provision of additional sources of revenue, BMW is trying to broaden its economic business fundament and gain some independence from the automotive market. Here it is noteworthy that in 2009 the financial services section of the company could achieve a total surplus of 355 million euros, which grew immensely to 1.6 billion euros in 2012 (BMW, 2012). As a major order placed by the US-American police worth 3 billion dollars indicates, the engine branch could also serve as an additional pillar of the BMW business model (Fromm, 2010a).

Summarizing, BMW followed a double strategy of maintaining its focus on dynamic and powerful cars in the premium segment and some few

hybrid or electrical models for the green and sustainability strategy and publicity. In this line, in January 2010, the new model of the Series 5 was announced for March, with fuel efficient engines and a lot of sophisticated technological features, but without any hybrid. In May 2010, it was announced to reduce the overall carbon dioxide emissions of the BMW cars by 25 percent until 2020. Shareholders worldwide were satisfied with this strategy of the BMW management. The marketing agency Millwardbrown elected BMW as the most valued brand of the world in 2010 and in 2012; in 2011 and 2013 it was the second most valued after Toyota.

## **PRODUCTION SYSTEM AND STRATEGY**

At the beginning of the economic crisis in 2008, BMW was known as a high-quality company but at the same time perceived to be producing too expensively, often ending up with only little profits. To meet this common criticism, which had not only been addressed to the Bavarians in 2008, the company's efforts to rationalize their production and administration activities manifested in the so-called “Program Number ONE.” Against the background of decreasing sales since the beginning of the crisis outlined above, these rationalization efforts became more and more urgent. So Friedrich Eichinger, BMW's chief financial officer, known to be an important player in negotiating strategic company decisions, introduced a plan to reduce costs by at least 6 billion euros in the segments Development and Purchase.<sup>20</sup> For the year 2010, rationalization efforts were concentrated on the units Administration and Distribution, where additional savings of 200 million euros should be realized.<sup>21</sup> Besides the “Program Number ONE” further measures of rationalization derived from an increasing interdependence between the BMW core brand and its compact brand Mini, based on a common component base for front- and all-wheel technology. For the first time, BMW thereby considers to use the same platform for models from the BMW- and the Mini-series.<sup>22</sup> In order to rationalize its component production and develop the economies of scale, the BMW group tried to cooperate with the Fiat and Daimler consortia during 2008 and continued with increasing joint component production with PSA in 2009.<sup>23</sup>

Further potential for rationalization possibly lies in a closer cooperation by the buying departments of BMW and Daimler. According to German media, a combined strategy of purchasing components could create

significant advantages (Beise & Fromm, 2010). If this joint strategy would be extended to R&D activities as well as some other fields of investment, the business magazine “Capital” estimates possible synergies worth 4 billion euros a year.<sup>24</sup> It seems interesting to note that one central characteristic of both companies – their company-specific culture of engineering – can turn out as a major obstacle in this process of cooperation. Furthermore, BMW plans to extend their cooperation with PSA on the Mini engines to the production of hybrid technologies (Fromm, 2010). Besides the rationalization measures mentioned so far, most significant changes within the production systems can again be summed up under the international coordination of company processes as well as the organization of the greening initiative as the fundament of the BMW’s future business strategy.

Although having grown rapidly to become a global player in the worldwide car industry since the 1990s, the BMW groups’ production structure still reflected a quite Germany-centered constellation. Almost three quarters of all employees of the company (out of almost 107,500 people in May 2008) were working in Germany in the car-production plants in Dingolfingen, Leipzig, Munich, and Regensburg. At the same time, roughly 80 percent of sales were happening abroad (rising to 84 percent in 2012). As signaled by the German media, the regenerated sales figures point to an increase of foreign production-share. In the same manner the company plans to change the production balance from 60 percent in Germany and 40 percent abroad to a 50–50 relationship (Fromm, 2010b). The indicator, according to which production is placed in particular (national) environments, is the volume of local/regional demand. The principle of allocation can be summed up as “production follows the market,” that is, where many units of a model are being sold, it is likely to be produced (Beise & Fromm, 2010). Due to this principle, the company plans to attain an increase of production capacity in China. Through establishing a second plant with an investment volume of over half a billion dollars, the potential number of vehicles per year shall be raised from 41,000 to 100,000. Depending on the market developments, this number might be extended to up to 300,000 units.

As explained above, this optimism significantly derives from the fact that even in times of the crisis, the Chinese market provided profitable business opportunities for BMW.<sup>25</sup> Other examples of cross-border organization of work, explicated above, can be found in the realization of the company’s greening initiatives, namely, the production process of a test series of electronic cars on a Mini-Basis in 2008. While the Oxford

plant built the entire vehicles except for the engines, gear mechanisms and tanks, the new drive trains were added at the core plant in Munich. The production of the abovementioned “Megacity Vehicle” at the BMW plant in Leipzig follows the same principle of allocating knowledge-intensive work in the home country, where high-level engineering can ensure service quality. Besides the ongoing production of smaller vehicles, the main function of the plant will be to serve as the company’s competence center for e-mobility.

Further international ambitions in the context of the new technologies can be found in the joint-production of carbon fibers together with the Wiesbaden-based specialist SGL Carbon in a newly established site in the United States. Based on a \$100 million investment, the plant in Moses Lake, Washington, shall in the medium term embrace 80 jobs, with potentially more to be generated in situ.<sup>26</sup> For BMW, the in-house broadening of the product portfolio goes along with walking the path of greening innovations. Accordingly, the Bavarians announced in the summer of 2010 to enter into the field of battery production for electronic cars. While the single components are still to be bought from supplier companies, the assembly of the parts is soon supposed to be in-house business.<sup>27</sup> While through its integration into the global production and research networks of its mother company Volkswagen, one major competitor Audi will most definitely be playing on synergies in research and development, BMW has ruled out the possibility to cooperate in the field of R&D.<sup>28</sup>

Summarizing, the development of the production system is characterized mainly by new investments in the German plants and a new plant in China and by a new role for the Leipzig plant as the Competence Centre for the production of e-cars. By this, BMW’s production system reflects the premium segment strategy, the ongoing internationalization of production and the strategic decision for e-mobility as BMW’s greening strategy.

## LABOR RELATIONS

Even before the financial crisis of 2008, the management of BMW started preparing its employees to reduce expectations concerning wages and working hours. Accordingly, there are reports about an internal BMW study suggesting a 20 percent redundancy of personnel in the administration section.<sup>29</sup> In early 2008, it was announced that management planned to implement far-reaching saving measures at the expense of the labor side:

efficiency in production should be reestablished not only by reducing the total number of jobs provided by the company, but also through a strategy of rationalization, based on forcing employees to work longer hours for the same money. Additional measures could be found in offers of voluntary renouncements, as well as outsourcing engineering services.<sup>30</sup> During spring of the same year, these plans were specified by management: a total of 8,100 jobs should be cut down, 7,500 of which were located in Germany. While with 5,500 the major share of the released workers had been employed as temporary workers, the 2,500 “regular”<sup>31</sup> jobs were supposed to be reduced on a voluntary basis (i.e., partial retirement, compensation-offers).<sup>32</sup>

Generally, flexible working time arrangements can be identified as the central instrument, applied by BMW, to overcome the challenges of the crisis: because of the first decreases in sales, BMW stopped production at its plant in Leipzig for four days in October 2008 to lower the total production by 2,800 units. A system of working time accounts<sup>33</sup> enables the company and its employees to flexibly calculate this deficiency with past or future working time, so no immediate economic hardships will be caused for the workers. Due to the lasting stagnation of sales, the assembly line also came to a halt in BMW’s Regensburg plant for an entire month later that year from December until January 2009, again lowering the number of units manufactured by another 9,000.<sup>34</sup> An extension of this short-time policy is experienced by a total of 26,000 BMW workers at four German subsidiaries between January and March. In the meantime, due to still existing overcapacity, the deletion of another 1,000 jobs was announced in February.<sup>35</sup> A last usage of the short-time instrument by BMW can be recognized in October: to compensate for a decrease in sales of motorcycles, 700 of the 2,000 employees of the company’s plant in Berlin were affected for five days.<sup>36</sup> After the company had already stopped using them in its automobile branch, short-time measures finally were dropped by management in November 2009 for all German plants, to once again underline the final character of this decision in February 2010.<sup>37</sup>

In the context of these announcements, it turned out that mainly in the plant in Leipzig, but also to a lesser degree in other BMW plants, the share of temporary workers employed under precarious conditions had increased substantially. This led to an agreement with the Metal Workers Union *IG Metall* in April 2008, whereby temporary workers were to earn 600 euros more per month based on a new collective agreement. Another issue, worker representatives perceived as an offense not tolerable, can be found in BMW management’s outsourcing efforts, put forward in the course of its “Program ONE.” Object of these efforts were services like gastronomy



and restaurants, health care and security. This was quitted by the president of the works council Manfred Schoch “There will be trouble in this company like never seen before.”<sup>38</sup> This situation of high tensions between management and workers lasted until spring of 2009.

In spring 2009, an effort to implement a new wage policy turned out to be fruitful. While tariff-based wages were reduced by 10 percent, a head of department received 30 percent less. The relatively highest losses had to be burdened by the executive officers, earning less than 40 percent of their former income. CEO Reithofer’s salary accordingly was added up to 2.27 million euros.<sup>39</sup> A second step into the direction of a more rational wage relationship was taken in October 2009, when BMW announced to relate the income of the top managers directly to the wages of the factory workers.<sup>40</sup> During 2010, problems focused in the labor relation area shifted toward the stated lack of qualified people where BMW announced to increasingly look for high qualified engineers and workers abroad and to increase efforts in additional training for the workers. These demands mainly arose from the company’s recent engagements in the field of new technologies.

In general, due to the deep recession and the dramatic fall of employment during the crises of 2008, the BMW group was able to mainly maintain its overall family-oriented personal policy and its almost good labor relations between works councils and management. However, even against the background of the weak development of sales and turnover, the decrease of the total number of employment by 4 percent down to 96,230 was a hard challenge for workers and employees which was alleviated only by increasing employment in 2010. Even if there was some management-induced rhetoric of cutting down workers’ benefits, in general, measures of flexible working times and shifts – especially in the first half of 2009 – showed up to be adequate instruments for slowing down production without having to reduce work force to a huge extent.

At the same time, the company reduced the share of temporary workers and had to increase their employment conditions by signing a new collective agreement. The BMW group was the only bigger company announcing substantial decreases in management payment to achieve a socially responsible adaption to the economic crises. This shows that even in the situation of crisis the company was able to project a positive and progressive image of sustainability, also in its social relations. As for the German plants, an announcement about future employment opportunities had been made by the management in November 2010: if company sales reach the limit of 2 million by the year 2020, additional production in foreign subsidiaries

will not come at the expense of losing jobs or working time in Germany (Beise & Fromm, 2010). In general, more or less harmonious labor relations got under tension during 2008 and 2009, but came out even strengthened and with advantages for the labor side when fully driving out of the crisis during 2010.

## CONCLUSION

The aim of this paper was to summarize the essentials of BMW's strategy to cope with the problems of the recent economic turbulences, caused by the broader impact of the subprime crisis. As shown in the four sections above, a portrayal of measures taken by the company can be differentiated into four categories. Against the background of the findings structured within these four dimensions, it becomes apparent that to get an understanding of BMW's crisis management in general the following points have to be considered (see also Table 1).

The family-driven shareholder group of the Quandt family maintained the course of the shares stable and high, despite the rumors and "bad news" of dramatically falling sales and profits in 2008. This stability of the overall business model corresponds positively with what has been identified to be a long-term orientation among the majority of BMW's shareholders (Beise & Fromm, 2010). As shown above, the profit strategy and the

**Table 1.** The Components of the BMW Business Model.

Dimension of the Business Model	Characteristics of BMW
Corporate structure and profit strategy	Long-term-oriented family as main shareholder; Bavarian and technology driven self-concept and policy; searching for technology-specific cooperation with other carmakers
Product structure and market strategy	Premium carmaker for individualists; high product variation; successful creation of new niche brands (Mini, i3); slight shift from "pleasure to drive" toward "greening" of product strategy while maintaining scope of powerful high-end cars
Production system	Customer-driven production (production on demand); CKD assembly in emergent markets followed by small-scale production in fastest growing regions
Labor relations	Family values; long-term employment stability for "core workers" and flexibility buffer by temporal workers; "share the pan" between management and workers during crisis

product policy shifted smoothly from a simple power and “pleasure to drive” dominated philosophy toward a more sustainable and emission reducing strategy. R&D efforts promise to contribute to a necessary future shift in ecological driving technologies is notable.

Concerning shifting market structures and the production system, the global expansion of BMW as a small but independent premium seller was focused on the three main regions: North America, China/Asia, and Western and Central Europe. In this strategy, China, the United States, and Germany are the three focal countries for production; the company began to cooperate intensively with other carmakers in some not strategic fields (mainly secondary component procuring). The traditional model of labor regulation, based on employment stability and favorable working conditions was challenged first by the massive use of temporal workers, which amounted up to a third part of workers (e.g., in the Leipzig plant). Additionally, the dramatic reduction of production in 2008 and 2009 went along with the end of quite a number of employment contracts. Generally speaking, the established strong position of the Works Council was reinforced by the crisis, workers maintained and even increased their employment stability, but made concessions concerning the flexibility of shifts and the distribution of work time volume over several months. Since 2010, employment is growing again.

Until now, having survived relatively well the financial and economic crisis, BMW was able to continue to exist as an independent global player in the premium segments of the car market. It remains an open question for the future, whether the company took the right strategic decisions to concentrate on e-mobility as the future technology of car traction and to focus on China and the United States (besides the established European sites) as the most important sales markets. Many arguments indicate that BMW could maintain as a small premium car producer. Perhaps it will show up that a relatively small company like BMW is more maneuverable through stormy times when automobile preferences and their embedding in social values and societal mobility patterns are shifting.

## NOTES

1. This database has been established in the course of different projects on the international automotive industry at the research unit, the authors are affiliated with.

2. For a comprehensive portrayal of BMW’s historical development see the works of Mönnich (2004).

3. For a more detailed description of the case and its impact on the BMW trajectory, see Pries (2009). It furthermore seems important to note that the decision to form a European Works Council (EWC) was taken as a reaction to the events of the Rover acquisition (Hertwig, Hauser-Ditz, Hertwig, Pries, & Rampeltshammer, 2010, p. 24). The main motivation derived from the fear that a constellation of “whipsawing” (Webster, Lambert, & Bezuidenhou, 2008), initiated through the integration of the Rover plants, might lead to a downgrading of labor regulation standards. As Whittall (2000) points out, BMW management could be convinced, due to the advantages of a voluntary cooperation, before the mandatory establishment in the course of EU legislation, concerning European Works Councils in 1994. According to Whittall, it was only due to the strong influence of German labor-representatives within the EWC that the Rover plant in Longbridge, UK, could be saved from being shut down in the course of the following events.

4. [http://www.handelszeitung.ch/artikel/Unternehmen-AWP\\_BMW-verneint-Staatshilfen\\_543138.html](http://www.handelszeitung.ch/artikel/Unternehmen-AWP_BMW-verneint-Staatshilfen_543138.html)

5. <http://www.tagesspiegel.de/wirtschaft/unternehmen/bmw-beendet-kurzarbeit/1503568.html>

6. <http://www.sueddeutsche.de/wirtschaft/bmw-chef-reithofer-wir-bleiben-vorsichtig-1.156363>

7. <http://www.zeit.de/newsticker/2010/1/29/iptc-bdt-20100129-184-23703186xml>

8. <http://www.handelsblatt.com/unternehmen/industrie/autobranche-bmw-schafft-schwarze-zahlen;2521051>

9. [http://www.handelszeitung.ch/artikel/Unternehmen-AWP\\_BMW-will-prof-ita-bler-werden\\_729853.html](http://www.handelszeitung.ch/artikel/Unternehmen-AWP_BMW-will-prof-ita-bler-werden_729853.html)

10. <http://www.capital.de/unternehmen/100028396.html> (22.2.10)

11. <http://www.spiegel.de/spiegel/print/d-69174807.html>

12. [http://www.handelszeitung.ch/artikel/Finanz-AWP\\_BMW-investiert-weitere-270-Millionen-Dollar-in-den-USA\\_346242.html](http://www.handelszeitung.ch/artikel/Finanz-AWP_BMW-investiert-weitere-270-Millionen-Dollar-in-den-USA_346242.html)

13. <http://www.spiegel.de/wirtschaft/0,1518,577645,00.html>

14. <http://www.n-tv.de/wirtschaft/meldungen/Auch-BMW-wird-gebremst-article-347296.html>

15. <http://www.handelsblatt.com/unternehmen/industrie/daimler-vw-und-bmw-deutsche-autobauer-greifen-in-den-usa-an;2509300;0>

16. [http://www.handelszeitung.ch/artikel/Unternehmen-AWP\\_BMW-steigert-US-Absatz-im-April-um-9-Prozent-auf-21.211-Stueck\\_722772.html](http://www.handelszeitung.ch/artikel/Unternehmen-AWP_BMW-steigert-US-Absatz-im-April-um-9-Prozent-auf-21.211-Stueck_722772.html)

<http://www.zeit.de/newsticker/2010/5/11/iptc-bdt-20100511-357-24806628xml>

<http://motor-exclusive.de/business.php?newsid=58918>

17. <http://www.wiwo.de/unternehmen-maerkte/bmw-chef-fordert-ambitionierte-klimaziele-414781/>

18. <http://www.wiwo.de/unternehmen-maerkte/bmw-chef-fordert-ambitionierte-klimaziele-414781/>

19. <http://www.mobtivity.com/de/news/entry/preise-und-markteinfuehrung-fuer-den-bmw-i3-stehen-fest-fuer-die-usa.html>

20. <http://www.handelsblatt.com/unternehmen/koepfe/friedrich-eichiner-mit-eiserner-hand-bei-bmw-kosten-sparen;2477593;2>

21. <http://www.handelsblatt.com/unternehmen/industrie/schwache-autokonjunktur-bmw-verschaerft-sparanstrengungen;2481175>

22. <http://www.handelsblatt.com/unternehmen/industrie/kleinwagen-bmw-setzt-auf-mini-plattform;2540338>
23. <http://www.faz.net/s/Rub1DABC609A05048D997A5F315BF55A001/Doc~E20C7AD46FB52452EB9C88F492D6CBA71~ATpl~Ecommon~Scontent.html>  
[http://www.handelszeitung.ch/artikel/Unternehmen-AWP\\_BMW-sucht-Naehe-zu-Peugeot-weiter-vorsichtig-mit-Prognose-fuer-2009\\_603044.html](http://www.handelszeitung.ch/artikel/Unternehmen-AWP_BMW-sucht-Naehe-zu-Peugeot-weiter-vorsichtig-mit-Prognose-fuer-2009_603044.html)
24. <http://www.capital.de/unternehmen/100028396.html>
25. <http://www.zeit.de/newsticker/2009/11/12/iptc-bdt-20091112-214-22978184xml>
26. <http://www.n-tv.de/wirtschaft/SGL-und-BMW-kooperieren-article811039.html>
27. <http://www.n24.de/boerse/Nachricht/81991/BMW-will-Batterie-fuer-Elektro-Autos-bauen/>
28. <http://www.welt.de/die-welt/wirtschaft/article7692854/BMW-kommt-wieder-in-Fahrt.html>
29. <http://www.spiegel.de/wirtschaft/0,1518,549482,00.html>
30. <http://www.sueddeutsche.de/wirtschaft/574/430326/text/>
31. Looking at the development of the numerical relation between “regular” and “temporary employment,” one could ask how regular the traditional form of employment still is (Holst, Nachtwey, & Dörre, 2009).
32. <http://www.tagesschau.de/wirtschaft/bmw16.html>
33. <http://www.spiegel.de/wirtschaft/0,1518,586765,00.html>
34. <http://www.spiegel.de/wirtschaft/0,1518,589843,00.html>
35. <http://www.sueddeutsche.de/wirtschaft/absatzkrise-bmw-kappt-jobs-in-mini-produktion-1.480906>  
<http://www.sueddeutsche.de/wirtschaft/bmw-ein-werk-zu-viel-1.406542>
36. <http://www.tagesspiegel.de/wirtschaft/bmw-will-kurzarbeit-ab-2010-beendender-motorradchef-ist-optimistisch/1608552.html>
37. <http://www.zeit.de/newsticker/2009/11/1/iptc-bdt-20091101-308-22860884xml>
38. <http://www.spiegel.de/wirtschaft/0,1518,569727,00.html>
39. <http://www.sueddeutsche.de/wirtschaft/miese-bilanzzahlen-bmw-spart-auch-bei-den-chefs-1.411257>
40. <http://www.tagesschau.de/wirtschaft/bmw146.html>

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