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Author post-print (accepted) deposited by Coventry University's Repository

Original citation & hyperlink:

Donnelly, T, Begley, J & Collis, C 2016, 'The West Midlands Automotive Industry: The Road Downhill' *Business History*, vol 59, pp. 56-74. DOI:

10.1080/00076791.2016.1235559

<https://dx.doi.org/10.1080/00076791.2016.1235559>

DOI 10.1080/00076791.2016.1235559

ISSN 0007-6791

ESSN 1743-7938

Publisher: Taylor & Francis

This is an Accepted Manuscript of an article published by Taylor & Francis in *Business History* on 20 Oct 2016 available

online: <http://www.tandfonline.com/10.1080/00076791.2016.1235559>

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The West Midlands Automotive Industry: The Road Downhill.

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Keywords: Economic crisis, industrial decline, mergers and acquisitions, investment, market share, government policy.

Abstract

This paper examines how the structure of the automotive industry in the West Midlands has changed since the 1970s. In the early 1970s the West Midlands accounted for circa 60 per cent of total car production in the UK. By 2008, this had dwindled to 18 per cent. The discussion here will focus particularly on the most likely reasons for the decline in volume production and the region's increasing reliance on relatively small scale luxury car production. The automotive industry was caught up in the general de-industrialisation that took place in the region since the mid 1960s prior to the economic crisis of the early 1980s, as well as suffering from the effects of increasing globalization in the car industry itself. By 2008 the context for the sector had become the global financial crisis.

Due to a lack of economies of scale and investment the domestic firms such as British Leyland and Rootes became increasingly unable to compete in the market place despite restructuring and government intervention. Similarly foreign direct investment by firms such as Chrysler, Peugeot, BMW and Ford through a series of takeovers failed to restore prosperity and eventually all of them withdrew from the region. The outcomes have led to factory closures and a hollowing out of both the assembly and component sides of the industry, leaving the region heavily dependent on Jaguar-Land Rover which has been acquired recently by the Indian conglomerate, Tata. This paper assesses the reasons for the decline of the automotive sector in the West Midlands region by contextualizing its growth and decline against that of the UK auto sector as a whole. Considerable emphasis is placed on the fates of a number of key firms in the region – the British Leyland Motor Corporation, MG Rover, Rootes and Jaguar – with explanations offered for their decline.

Introduction

Administratively, the English West Midlands region is comprised of: the three counties of Warwickshire, Worcestershire, and Staffordshire; the four unitary authorities of the County of Herefordshire, Shropshire, Stoke-on-Trent, Telford and Wrekin; and the seven metropolitan areas of Dudley, Sandwell, Solihull, Walsall, Wolverhampton, Birmingham and Coventry. In the early 1960s the West Midlands region was second only to the South East in terms of economic prosperity but after the mid 1960s economic decline began in the West Midlands. During the 1970s it had the lowest economic growth of any British region and suffered particularly badly from the recession at the turn of that decade. Between 1980 and 1983 the West Midlands suffered the highest increase in the unemployment rate, the largest contraction of the employment base and the worst long term unemployment of any English region.¹ The West Midlands region has been known traditionally as the birth place of the UK automotive industry and for most of the twentieth century the auto manufacturers/assemblers such as Rootes, Austin, Jaguar, Standard, Alvis, Lanchester and many others, despite the vagaries of the trade cycle and interruptions occasioned by two World Wars, boomed with the region being virtually a weather vane for measuring the health of UK manufacturing.²

Today everything is changed and volume manufacturing has all but disappeared from the area. From the late 1960s the industry began to enter an elongated period of near continuous economic decline, witnessed in the first instance in the series of mergers that led to the creation of British Leyland Motor Corporation (BLMC) in 1968. This proved disastrous in the long term, and after passing through a series of different owners, the firm ultimately known as MG Rover finally went out of business in 2005. Similarly, the long established firm of Rootes, which had been taken over by the American multinational, Chrysler, in the late 1960s before falling into the hands of France's Peugeot in the late 1970s, closed its gates for the last time in 2007. The significance of the latter was that it represented the end of volume car production in the West Midlands, leaving only the BMW plant at Cowley in adjacent Oxford producing the Mini, but that is somewhat peripheral to this article.³ What volume production remains in the UK is owned by the Japanese firms of Honda, Toyota and Nissan at Swindon, Burnaston and Sunderland respectively. All that survives of Vauxhall's car production is its plant at Ellesmere Port near Liverpool following the termination of car making at its Luton facility. Ford has ceased

producing cars entirely in the UK following the switching of its Dagenham factory to engine production. The net result is that at the time of writing, the car industry in the West Midlands is almost entirely dependent on the Indian-owned Jaguar- Land Rover (JLR) plants at Solihull and Castle Bromwich which produce a range of high quality and expensive luxury vehicles plus a small number of specialist niche firms which are trying to penetrate the emerging electric car/hybrid market.⁴

The purpose of this paper is to provide an analysis of the reasons why the West Midland's car industry fared so badly from the 1960s onwards. It will focus on the period after the near bankruptcy of BL in 1974, when teetering on the edge of bankruptcy it was taken over by the National Enterprise Board, down to the recession of the mid 2000s when it was feared that the industry might disappear completely as a result of near continuous hollowing out in the assembly and components sides. The paper will discuss the secular decline of volume production, the structural changes that have occurred, the consequences of Foreign Direct Investment (FDI) into the area by Chrysler, Peugeot, BMW and Ford with a final passing reference to Tata's acquisition of JLR. It will include a discussion of the consequences of dealing with secular decline and also those of foreign ownership when decision making is not only external to the region, but to the UK itself.

Contextualising the West Midlands Automotive Industry

The long term fate of the West Midlands car industry cannot be divorced from the impact of de-industrialisation in British industry in the 1970s and 1980s, nor from the growing internationalisation and subsequent globalisation of the industry after the Second World War. As Dicken has argued, the automotive industry is the most global of all industries, employing over sixty million people with its markets and supply chains spanning the globe.⁵ Moreover, as cars become technically more sophisticated, development costs have risen and so in search of cost recovery assemblers and manufacturers have widened the geographical limits of their purchase areas, while at the same time trying not to skimp on quality. For example, Jaguar's European supply chain now goes far beyond the UK, stretching from Portugal to Polish Silesia. Furthermore, with the opening of Eastern Europe and the emergence of countries such as China, domestic producers in West Europe have seized the opportunity of opening new plants and factories in countries such as the Czech Republic, Slovakia, Poland and even Romania due to

the availability of lower costing labour and the opportunity of future market potential. It could be argued that this has contributed to a degree of hollowing out of in both assembly and component production in Western Europe, a factor from which the West Midlands has not been immune.⁶

The 1980s and 1990s saw waves of consolidation and FDI across the international automotive industry through acquisitions and mergers and alliances. These were viewed as strategic methods of business growth and development. They were utilised for both offensive and defensive reasons which can be summed up as being a mixture of a desire to enter new markets or market segments, gain increased market share, acquire technologies and if possible obtain access to low cost labour, and, in the case of BMW's acquisition of the Rover Group, to warn off hostile predators. Ford, for instance, after failing to gain a foothold in the prestige European luxury market with its *Scorpio* and *Cosworth* models, formed the Premier Automotive Group by taking over a suite of firms, namely, Aston Martin (1987), Jaguar (1989) Volvo (1999) and Land Rover (2000.) The message appeared to be that if the in-company-bred model failed to succeed the only alternative was to buy 'the real thing. Contrastingly, as will be discussed later, BMW, the modest sized German luxury vehicle producer, for defensive reasons moved in the opposite direction by buying Britain's MG Rover to gain economies of scale and small car technology as well as getting control of Land Rover. In other words this entire process was indeed the creation of truly global enterprises that left Britain's ailing domestic car industry far behind in terms of total production, technologies and market reach at both the volume and luxury ends of the trade.⁷

The fate of the West Midlands though cannot be divorced from the processes of de-industrialisation that affected the UK from the 1960s onwards. The British economy had long suffered from a North-South division dating back to the First World War with the older smokestack industries of coal, iron, steel, and shipbuilding being located in Wales, Scotland and the North East of England. The region south of the river Trent was home to lighter engineering industries such as automotives, electronics, telecommunications and avionics. By the 1960s there was evidence that these, too, were showing signs of being uncompetitive and that geographically the West Midlands was suffering from an over concentration of the 'new staples.' As early as 1959 *The Times* warned that Coventry was particularly vulnerable to a downturn in these modern industries because they were as much interconnected in their own way as were the older staples.⁸ The question then arises as to how these industries would be affected by government policy.

Rarely have British governments of any political colour exhibited a positive long-term industrial policy. In the 1960s and 1970s government's tended to intervene only in times of crisis, witnessed by the spate of government inspired mergers, often followed by plant closures, that affected the electronics, telecommunications, shipbuilding and auto industries in an effort to find national champions that could compete against the threats posed by American multinationals and their emerging European counterparts. In the auto industry, as will be discussed below, it was this concept that heralded the creation of British Leyland (BL).⁹

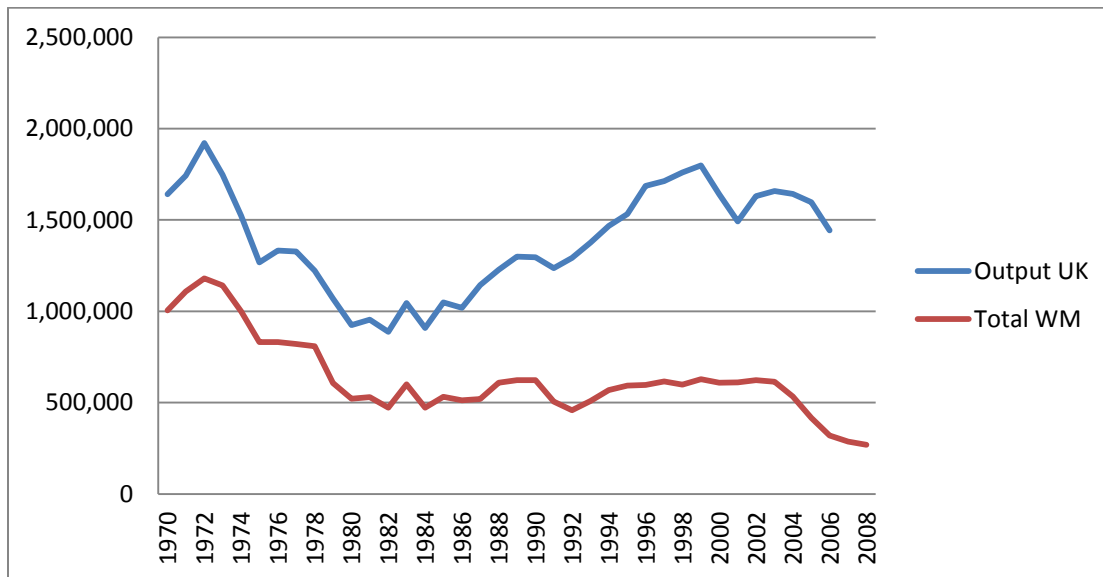
National and regional governments often try to attract inwards FDI as a means of arresting industrial decline and as an instrument of industrial regeneration through new products, technologies, work processes and potentially by investing in R&D to the benefit of the wider industrial community. The economic problems of the early 1980s and accompanying rising unemployment led to the establishment of the West Midlands Industrial Development Association in 1984 to attract FDI and so help reinvigorate the region. Detailed analysis of FDI in the Midlands showed that by the end of the 1980s, the region had improved markedly as a destination for inwards FDI. Its share of inward investment projects rose from 6 % in 1983s to 16 % in 1988 when its share of associated jobs stood at 25 % thus placing the area at the top end of the UK league table for FDI alongside Wales and Scotland. Key factors in inward location decisions included the central location of the West Midlands within the UK, with excellent national, regional and local physical communications.¹⁰ As has already been stated, Chrysler, Ford, Peugeot and Tata, have all chosen to invest in the region at various times. Indeed, one third of all inwards investment in the 1980s was in the traditional industries of metal goods, engineering and vehicles.

Decline of the UK Automotive Industry

A considerable amount of ink has been spilled in discussing the demise of the volume production of cars in Britain. The key reasons offered for the decline include a lack of low levels of investment, a lack of economies of scale (Rhys, 1972) poor profitability, low productivity (Williams, et al, 1983; Bhaskar, 1979; Whisler, 1999), expedient government policy (Dunnett, 1978) volatile labour relations (Thoms and |Donnelly, 2000) and the effects of internationalization (Coffey, 2009) exhibited by deteriorating market share at home and abroad, as Adeney notes by emphasising the difficult international market conditions faced by the sector.

The various fuel crises made increasing competition from foreign producers even more challenging.¹¹ Whisler also refers to the perception that management of the UK automotive industry at the time as being liable for a range of decisions that also served to undermine the sector. However, no one cause can be singled out and space prevents an in depth analysis of all of these and so only the most salient points will be analysed. Thus before moving on to discussing specific cases a number of more general explanations will be offered.

Figure 1: Automotive production in the West Midlands and UK, 1970-2008.



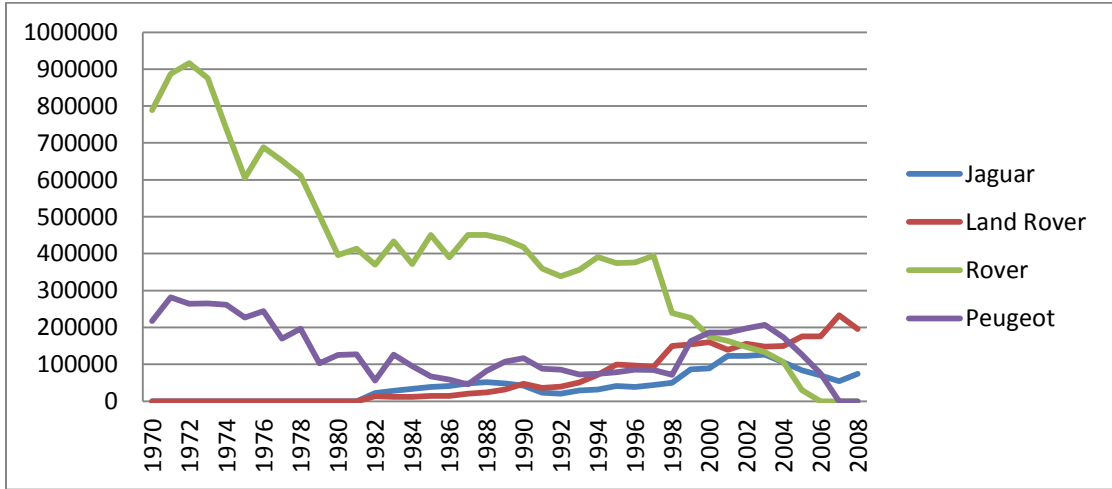
Source: SMMT annual reports, 1970-2008

That the car industry in Britain experienced decline is not in doubt as Figure 1 shows. More importantly for the purposes of this paper, it is also obvious that the industry in the West Midlands followed a similar downwards trajectory, as demonstrated in Figure 1 above and Figure 2 below. Output peaked in the years between 1970 and 1973, during the years of the ‘Barber Boom’, when the region accounted for 75 per cent of all UK output in 1971. By 1975 both regionally and nationally total output fell, but the region still accounted for 65 per cent of UK production. Admittedly this was at a time when both BL and Chrysler UK were experiencing serious difficulties. Nevertheless from then onwards the overall trend was downwards, and by the recession of 1981-82 West Midlands output had fallen to 53 per cent of total production, and

by 1988 this figure had fallen beneath 50 per cent.¹² The coming on stream of Japanese transplants from the late 1980s into the early 90s contributed to a revival in national output, but these new firms were located outside the West Midlands Region, as the relative decline in West Midlands output continued.

By the turn of the 20th century the relevant output figure had dropped to 37 per cent before falling to 18 per cent in 2008, this latter drop being caused primarily by the closures of MG Rover’s Longbridge plant and Peugeot’s factory at Ryton on the outskirts of Coventry in 2005 and 2007 respectively.¹³

Figure 2: Automotive production in main West Midlands firms, 1970-2008.



Source: SMMT annual reports, 1970-2008

Paralleling the fall in output was a decline in the numbers employed. The collapse of BL and Chrysler in the 1970s and subsequent plant closures saw the numbers employed fall sharply. Between 1980 and 1983 some 165,000 jobs were lost nationally. In Coventry alone BL’s workforce shrank from 27,000 to 8,000 between 1975 and 1984, while Chrysler’s dropped from 16,000 to 8,000 in the years 1965-76 and to just under 3,000 by 2003-04.¹⁴ Finally, the end of production at Longbridge in 2005 saw some 6,000 jobs disappear, but it needs to be remembered that as late as 2004 the industry, including the components sector, still provided employment for 65,000 people, leaving the region twice as reliant on this industry compared to any other UK region.¹⁵

Having provided an overarching context for the decline of the automotive industry during the period under examination, the aim then of the following sections of this paper is to explain the secular decline of the automotive sector in the West Midlands, developing the argument through to the current incarnation of the industry in the region. To do so, the focus is placed on the key firms that were active in the region from the early 1950s through to the current era.

From BLMC to MG Rover: secular decline

The origins of the weaknesses of the car industry in the West Midlands are rooted deep in its long history. In the 1950s it became obvious that the many car plants in the area, such as those owned by Rootes, Standard, Alvis, Lanchester and to a lesser degree Austin and Morris, were too small in size, as firms increasingly sought economies of scale. As early as 1952 Austin and Morris merged, though effectively the former took over the latter. Several times during the same decade Standard and Rootes engaged in merger talks because of the increasing weaknesses in the market place, but the proposals fell through mainly because of personality clashes between the directorates of both companies.¹⁶ Eventually in 1961, desperate for a partner, Standard allowed itself to be taken over by Leyland, the Lancashire bus manufacturer. The early 1960s proved no better and there were further moves towards industrial consolidation with the greater part of the industry falling in 1967 into two groups: British Motor Holdings (BMH) and Leyland Motor Corporation (LMC), leaving Rootes to be acquired by the American multinational Chrysler.¹⁷ BMH and LMC were merged in 1968 to form the British Leyland Motor Corporation under the auspices of the state's Industrial Reorganisation Corporation. In 1975, BLMC was taken into public ownership under National Enterprise Board and renamed British Leyland. However, but within a few years both BLMC and Rootes Chrysler were in serious trouble.

In 1975, two national reports by the Commons Expenditure Committee and the Central Policy Review Staff respectively, focusing on West Midlands car producers, drew attention to a history of low production, heavy over-manning, poor productivity and profitability in comparison with European and Japanese firms, and a record of bad labour relations. For instance, it took British workers twice as long as their Japanese counterparts to build a vehicle. Both reports, while acknowledging the difficulty of comparing productivity levels internationally, referred to the comparatively poor labour productivity observed between the British car industry and its German counterpart.¹⁸

As the table in Appendix 1 indicates, vehicle output in the West Midlands fell almost continuously from the boom years of the early 1970s down to the 2000s. Even in monetary terms BLMC's profits in 1973, at almost the peak of the boom, were well below those achieved ten years earlier, and between 1968 and 1974 more money had been disbursed in dividends than had been invested in the company.¹⁹ As Williams *et al* have argued, such circumstances led to product-led decline, perhaps typified in vehicles such as the *Marina*, the *Allegro* or the *Austin Maxi* which, due to poor design and engineering, failed to make any significant impact on a market that was dominated by the two American multinationals, Ford and Vauxhall, with their *Cortina* and *Viva* models respectively.²⁰ What caused such a collapse?

Essentially at the time of creation BLMC consisted of a motley collection of nearly sixty plants, factories and models that competed against each other, frequently within the same market segment. As an entity BLMC reflected all that was weak in the British owned car industry: weak management, too many plants, lacking in economies of scale, poor productivity and profitability levels that were insufficient to generate enough cash to invest in new model development.²¹ The inter-connected nature of these factors demanded a ruthless policy of rationalization when the firm was formed in 1968. This failed to take place and two reasons appear to stand out. Firstly, in 1968 the firm was placed under the management of Sir Donald Stokes of Leyland. Stokes is sometimes accused of being indecisive, but he saw himself more as a creator rather than as a destroyer of jobs and so appears to have been reluctant to embark on a policy of rationalisation in the belief that the situation could be rectified. Secondly, it is contended that, as unemployment was rising in the late 1960s and a general election was due in 1970, the then Labour Government put Stokes under pressure to avoid factory closures in the West Midlands which would have led to a significant rise in unemployment.²² Serious loss of jobs may have made Labour-held West Midlands parliamentary seats vulnerable in the forthcoming election, especially in the wake of the opprobrium that had already been heaped on the Government following a similar series of mergers and plant rationalisation in the UK telecommunications industry.²³

With the onset of the financial crisis in 1974-75, the government's main response to the situation was to set up a committee of inquiry under Lord Ryder to investigate the state of BL and to make recommendations for its future. The Ryder Report confirmed what had been said by the previously mentioned Reports (cited above) and pointed specifically to the failure to rationalise

the firm as being its Achilles heel. Surprisingly, Ryder accepted the views of the existing management team on how the firm might be revived along with a bland assessment that BL could hold onto a 30 per cent market share. It was estimated that some £900 million of new investment was required, but even this large sum was insufficient to meet the company's needs. Astonishingly, while stressing the need for model rationalization, Ryder did not recommend factory closures, leaving the basic structure intact. He did advocate an improvement in labour relations as well as a more centralized management structure. In sum the report paid scant attention to the harsh realities of an increasingly competitive international car market. In spite of its manifest deficiencies the government accepted the Report²⁴

Within a short space of time matters deteriorated and by 1977 market share had plummeted from 32 to 20 per cent. Eventually the government realised the need for a drastic approach to managing BL and in the late 1970s Michael Edwardes was appointed Chairman. A controversial figure from the outset, Edwardes is perhaps best described as a turnaround manager, especially in times of crisis. Edwardes wasted little time in effecting plant rationalisation by effectively closing thirteen plants and reducing the work force from 198,000 to 108,000 approximately.²⁵ Brutal though this may have been, it was essential. Moreover, Edwardes instituted labour reforms and promoted new products such as the *Mini*, *Maestro* and *Montego*, but sadly none of them made much impression as market share continued to dwindle. Despite further injections of capital from the government Edwardes realised that BL was becoming too small to survive on its own. It lacked the expertise to develop new models and so as a stop-gap Edwardes formed an alliance with Honda. In return for a 20 per cent holding in BL, plus royalties, the Midlands firm was allowed to produce a medium sized Japanese vehicle at its Longbridge plant and badge it as the *Triumph Acclaim*. Essentially, this was recognition that Rover could no longer function as an independent volume car producer. Indeed the last car developed independently by the firm was the *Mini Metro*, which was launched in 1979.²⁶

At the luxury end of the market, Jaguar proved to be a continuous drain on BL's resources. Its relatively poor performance against better designed and superior engineered products by its competitors, BMW and Mercedes, became obvious. Output fell to circa 22,000 units in 1982.²⁷ Jaguar cars had a poor reputation for quality, rust and unreliability.²⁸ To try to improve matters Edwardes appointed John Egan as Chairman of Jaguar who implemented a series of reforms

which improved the company's performance and reputation to a degree. Such was the improvement that in 1984, in conformance with government policy, Jaguar was privatized before being bought by Ford in 1987, thus stripping out the luxury car producer from BL, which had been renamed the Austin Rover Group in 1982.²⁹

Despite the image change and with the loss of Jaguar, Rover still struggled to compete in the market place. This was recognized by Graham Day who was appointed company chairman in 1986 following a short stay in that position by Sir Austin Bide, who had succeeded Edwardes in 1982. Day, a Canadian who had previously been chairman of British Shipbuilders, was of the opinion that market share was not as important as the profit made per unit sold and so he determined to move in a different direction from Edwardes. He adopted the idea of 'Roverisation' in an attempt to rid the company and its products of the baggage of the old BL/Austin-Morris image by trying to move up market and position what became known as the Rover Group alongside Volvo, while emphasizing its 'Britishness' in export markets. No longer would there be an emphasis on raising production back up to a million units a year when an output of 500,000 might yield a better long term prospect. This was a bold and audacious move. Day's view was that increased profit per unit sold would put the firm in a healthier position financially than by competing against Ford and Vauxhall at the volume end of the trade where heavy price discounting was an accepted practice with cars often being sold at a loss. Initially, Day's strategy seemed to work and in 1987 a pre-tax profit of circa £27 million was recorded. On the downside many consumers felt that a premium price was being asked for products which were no better than the volume models sold by rival firms. In other words, it proved hard to downplay the image of British Leyland and some of its disastrous products and so market share continued to drop to 17 per cent.³⁰

In 1988, in keeping with its philosophy of privatization, the Thatcher Government sold Rover to British Aerospace (BAe). Basically the government had sold off its 'problem' and could boast that at least it had kept Rover in British hands. When the sale was announced it was claimed that the union of the two firms would bring about synergies with parallels being drawn with Sweden's Saab Aerospace and automotive divisions. Exactly how such synergies were to be achieved between a small niche car manufacturer and a company whose own efficiencies were in doubt at the time is highly debatable. In the event such synergy proved illusory, with BAe's

investment in its auto subsidiary proving minimal, and in 1994 BAe, which was short of capital for its aerospace division, sold Rover on to BMW.³¹

The question which naturally arises is why a relatively small maker of luxury vehicles would want to take-over an ailing British firm that had been in decline for almost two decades? The explanation lies in the importance of scale and market share in the auto industry. When compared with Mercedes and Volkswagen-Audi in the German market, BMW was a relatively small player and appeared to fear a predatory hostile take-over bid from either of its two German rivals or from one of the American multinationals such as Ford. Therefore, it had little alternative but to seek scale through finding a partner outside its domestic market, with Rover proving an available choice. When the Germans came on the scene, the UK government gave Honda the opportunity of buying the British firm, but the Japanese declined. Why is not clear, but perhaps the Japanese were well aware of the true extent of Rover's weaknesses.

BMW paid just over £1 billion, which was more or less the cost of developing a new BMW model. In return BMW acquired a number of advantages: access to Rover's small car technology with front wheel drive (which it lacked); the K series engine; an additional 3 percent share of the European market; a relatively low-cost production base; and the jewel in the crown, Land Rover, one of the world's leading producers of four-wheel drive sport/utility vehicles. The takeover seemed to promise much, but in the end it delivered very little. It is normal to expect the buying firm to have a clear idea of how its newly acquired partner would fit in with its own strategic planning and product development so that genuine synergies might be achieved, with both ultimately prospering. This, however does not seem to have been the case. The Germans, who did not seem have any plans for integrating the two firms, allowed Rover to proceed for two years prior to making any serious intervention in the running of the firm. Perhaps this was due to the mistake of overestimating the quality of Rover's senior management and capabilities at the outset or due to a failure to appreciate of Rover's real weaknesses in the UK market. It was only in 1996 when BMW became aware of the spiraling costs of continuous rescheduling of production and appalling build quality that it made decisive moves. The senior British managers, one of whom was John Towers, left the firm and were replaced in many cases by Germans.³²

What many British analysts and commentators anticipated was that BMW would finance much needed new model developments at Rover whose middle and upper market segment offerings,

the 200, 400, 600 and 800 series, mainly Honda derivatives, were ageing fast in the market place. A new middle range car was essential. Rover had such a model, the *R30*, in the development stage, but almost inexplicably BMW cancelled it and focused instead on developing a new mini and later a larger model that was to become the *Rover 75*. BMW did invest approximately £500 million a year including the building of a new engine plant at Ham's Hall near Birmingham and of a £750 million expansion at Land Rover; in contrast Longbridge was relatively neglected. Yet the total sum of investment was insufficient to turn Rover round. Market share continued to fall and by 1998 it hovered at around 10 per cent. Rover's position became increasingly precarious and the firm suffered an annual loss of £500 million. With a sagging home market share and exports being hit by the high value of sterling, BMW called for a sterling devaluation only to be told by the Chancellor that the root of the problem lay in Rover's poor productivity rather than in the value of the pound. To control costs the Bavarians sought refuge in redundancies and in renegotiating the terms and conditions of employment which the workforce accepted. In addition there was an increased emphasis on sourcing components from Europe because of Sterling's strength against the Euro. To make matters worse BMW was under severe competitive strain in its home market, especially in the midst of the more general consolidation that was taking place across the industry, and yet again fearing a hostile bid, it felt vulnerable.

Key shareholders, such as the Quandt, family, feared that Rover might act as a Trojan horse and bring about the destruction of the entire entity through its continuing heavy losses and brand weakness. In the end a game of brinkmanship was played by BMW. In 1999 the Bavarian firm in return for going ahead with the Mini project and face lifts for the 200 and 400 series asked the UK government for regional assistance otherwise it would consider building a replacement for both cars in Hungary. Whether the threat was real or not, the UK Government offered aid. However, BMW's rival, Porsche, objected to the EU that such aid distorted markets and called for an EU inquiry. In this context and faced with mounting losses, a drop in sales of 26 per cent and a fall in UK domestic market share to only 6 per cent, BMW decided to sell Rover in 2000. However, BMW did keep the Hams's Hall engine factory in Birmingham and the Mini plant in Oxford. At the same time it sold Land Rover to Ford.³³

BMW sold Rover for £10 to a UK based group of Midland based entrepreneurs, one of whom was John Towers. This group, which became known as the Phoenix Four, renamed the firm MG

Rover, promised to restore output to 200,000 units, build a replacement for the *Rover 45*, find a viable partner and return to profit. This was an ambitious plan, but sadly unrealistic if only because the Rover brand had become irrevocably tarnished and identified with failure. Secondly, the group had little capital to invest and consequently was forced to sell off assets to keep the firm going until its final demise in 2005. Thirdly, there was little possibility of finding a credible partner if only because the key mergers and takeovers between American and European firms in the industry had taken place over the previous decade. This impelled MG Rover to look to second tier producers such as Korean and Chinese firms. The Shanghai Automotive Industrial Corporation (SAIC) became initially interested in cooperating with Rover. However, given Rover's portfolio of ageing models, sales continued decline to a 3 per cent market share. At this point, SAIC backed off as Rover's financial difficulties became increasingly transparent as it had no wish to inherit heavy legacy costs, including pension liabilities and redundancy costs. Finally in April 2005 the firm was forced into administration, bringing about the end of volume production in south Birmingham.³⁴ A similar story emerges when the cases of Rootes/Chrysler and Peugeot are discussed below.

From Rootes/Chrysler to Peugeot

As has already been alluded to, Rootes/Chrysler, too, presented serious problems at the volume end of the auto industry in the West Midlands. A member of the British 'Big Six' in the 1950s and 1960s, though lacking in economies of scale, output rose to a height of 150,000 units in 1959 and then fell slowly during the ensuing decade. Market share peaked at 12 per cent in 1967, only one per cent above its 1954 figure, and in the 1960s losses were endured in six years out of ten.³⁵ Rootes, like the rest of the UK owned industry suffered from weak model development, low investment and low profitability. In sum the firm badly needed a partner. Such a partner was found in the Chrysler Company based in the United States, recognized by far as the weakest of the American 'Big Three.'³⁶ The Detroit based firm, facing heavy competition from Ford and GM, sought to gain a foothold outside the United States and so looked for partners in Europe by taking over Simca of France, Seat of Spain and finally Britain's Rootes. Chrysler assumed full control of Rootes in 1967, but in reality it was to prove an unsuitable partner in that its finances were weak and it was seriously deficient in managing firms outside its homeland. In other words Chrysler was a weak multinational in comparison with GM and Ford and had little to offer.³⁷

As events were to demonstrate, Chrysler's position in the UK was weak from the beginning and continued to deteriorate. Its difficulties were not helped by the small size of the Ryton factory, which was hemmed in by main roads, leaving no room for expansion. An initial step was to embark on a round of new investment by getting rid of three very old fashioned model dedicated assembly tracks and installing a long gate line track, capable of turning out a range of vehicles. New equipment was installed at nearby Stoke engine plant in Coventry at a cost of £17 million. Impressive as this may have sounded at the time, the American firm made it clear that this was all that could be afforded and that any future investment would have to be raised through self-sustained development. Indeed, by the early 1970s any advantage from the initial investment had been eroded. More importantly, Chrysler introduced only one new model, the *Avenger*, during its stay in Coventry. Launched in 1970, this vehicle was a success and proved a formidable rival to offerings from Ford and Vauxhall. The problem was that neither of the latter two stood still and, amid complaints of poor quality, the *Avenger* was soon overtaken by new and revamped rival products, leaving the Chrysler model looking tired and, consequently, market share fell. The outcome was that profitability was meagre and by 1975, with losses continuing to mount, the American parent made it clear that unless government aid proved forthcoming then the firm might well be forced to close and leave the UK.

The thought of a total shutdown by an American multinational presented a number of difficulties for the UK government and again there was a resort to crisis management for several reasons. Firstly, what became known as the 'Chrysler Crisis' came hard on the heels of the BL Crisis and there was uncertainty as to whether the government could afford to bail out both firms. Secondly, the prospect of both BL and Chrysler going out of business would also have had serious adverse repercussions on employment levels throughout the supply chain. Thirdly, if the latter transpired, unemployment in the region would rise to what might be termed politically unacceptably high levels. Fourthly, rescuing Chrysler would fly in the face of a newly espoused industry policy that 'lame duck' firms should be allowed to fail and market forces allowed to prevail. Lastly, a Chrysler withdrawal would mean the closure of a factory at Linwood near Glasgow in Scotland at a time when the Scottish National Party was rampant in the opinion polls, and there was again a fear that such an event would have severe political repercussions, if and when a general election was called. Faced with what was called a 'smoking gun,' the government lost its nerve, reversed its recently espoused industrial policy and rescued Chrysler.³⁸

The rescue package entailed the UK Government providing £162 million in return for Chrysler giving a commitment to remain in Coventry and to introduce the more recently designed *Alpine* model from Simca in France and so saved Ryton from extinction. *Avenger* production was to be transferred to the Linwood plant. The agreement though came at the price of losing 8,000 jobs through redundancies at the Coventry plants amid fears that Ryton would simply become an assembly facility for French made vehicles. Chrysler's problems were not confined to its British operations. It also suffered a severe loss of share in its home market to the extent that it could not sustain both its European and American operations. Finally, in 1978, it announced that it had agreed to sell its British subsidiary to France's Peugeot. At the same time it also sold its French, South African and Australian interests to raise much needed capital in Detroit. Nevertheless, British opinion was that the Americans had reneged on their agreement with the UK government.

For Peugeot, the acquisition of Chrysler was perceived as something of a mixed blessing. Basically the French wanted Chrysler's UK dealerships, but could not obtain these from the Americans unless they took on the factories as well. Regardless of fears among the Coventry work force, Peugeot gave a commitment to continue production at Ryton and at the Stoke engine plant. The *Alpine* was duly transferred from France, updated and was soon joined by a newer *Horizon* model. Like Chrysler before it, Peugeot, despite bringing in additional new vehicles such as the *Solara* and *Tagora*, found increased market share elusive, never gaining any more than 5-6 per cent of the UK market, with losses rising from £20 million up to £91 million in 1981, before a very modest profit of £4.9 million in 1983. A more serious problem for Ryton in the 1980s was the failure to win a share in the production of the Peugeot 205, leaving it dependent on ageing products. Essentially Ryton's fear of simply being an assembly operation for imported French kits were being realized especially when in 1984 the firm began assembling the Peugeot 309 and later the Peugeot 405.³⁹

Over its first decade in Coventry Peugeot lost around £100 million. Nevertheless, the French parent boosted Ryton in the early 1990s by investing £350 million which included a new paint shop, to facilitate production of the Peugeot 405, but within a fairly short space of time this, too, was switched back to France and gradually the plant became dependent upon one product, the Peugeot 306. It seemed as if the Ryton plant was becoming increasingly marginal to the company's needs except at times when there was a need to boost production. However, in 1998

matters seemed to improve when it was announced that the new Peugeot 206 would be built simultaneously in Coventry and France. This seemed to herald the safeguarding of the plant in the short to medium term. The new car proved an immediate hit across Europe and once more with booming demand Ryton proved itself useful as a ‘screwdriver plant’ in which pre-packed kits from France were assembled.

As long as demand held up, Ryton was relatively safe, but once demand dipped heavily after 2004 and, when coupled with Peugeot’s announcement that the 206’s successor the Peugeot 207 would be built in Tvarna in the Czech Republic, the writing was on the wall for Ryton. The company argued that Coventry’s costs were too high when compared with those in the Czech Republic, pointing out that it was €415 more expensive to make a car in Coventry than it did in Tvarna. This was despite the fact that the Coventry plant enjoyed a higher productivity rate than some Peugeot plants in France, particularly the Sochaux plant. Many felt that Ryton was deliberately sacrificed to preserve French jobs and because it was cheaper, quicker and easier to get rid of UK workers than their French counterparts, especially as similar tactics had been employed by Renault earlier when it closed its Belgian facility at Valvoorde, rather than close poorer performing French plants. Indeed, the *Times* went as far as to accuse the Peugeot of cowardice, but did have the grace to acknowledge that the firm was cutting back on its French workforce by cutting shifts and production at the same time. Whatever the truth Ryton’s closure cost 4,000 jobs, effectively ending volume production in the West Midlands.⁴⁰ Thus, the near continuous demise of volume production in the West Midlands from the 1990s onwards left the region increasingly dependent upon the up-market brands of Jaguar and Land Rover. Both of these were destined to become part of Ford’s Premier Automotive Group (PAG) as the American firm tried to penetrate the European luxury market and escape dependency on its Blue Oval products.

Ford and the Premier Automotive Group

It was from the late 1980s until 2000 that Ford assembled a cluster of firms which it hoped would propel it into the European luxury car market and enable it to challenge Mercedes and BMW. According to Nick Scheele, one time Chairman of Ford, each firm was acquired with a specific strategy in mind. Aston Martin was seen a ‘luxury boutique’ firm looking at the very top end of the market; Jaguar offered a well-known brand, a positive image, a good distribution

system and an existing customer base; Land Rover/Range Rover provided an entry to the fast developing four-wheel drive market; while Volvo represented solidity, safety and appealed to environmentally conscious consumers.⁴¹ Discussion here though will be confined to Jaguar/Land Rover.

Putting together such a diverse group represented a unique challenge and Wolfgang Reitzle was recruited from BMW to manage the PAG as its new CEO. Reitzle harboured a considerable degree of ambition and realized that all of the PAG's participants, particularly its British members, would have to increase output to 1.2 million units by 2005. Failure to raise output would confine the PAG's products to being little more than niche players. Jaguar was asked to raise its output of 80,000 units in 2000 to 200,000 by 2005; in the event production in the latter year stood at circa 89,000. Thus the expected figures were not achieved and in March 2008 Jaguar and Land Rover were sold to Tata of India for \$2.3 billion. In other words the PAG proved an expensive failure.

Essentially the PAG was a disparate collection of firms, and the visions that synergies would be achieved soon proved illusory, as so many of the products were at different stages in their development cycles. Trying to synchronise these proved well-nigh impossible. Volvo, for instance, was more or less allowed to pursue its own destiny and Aston Martin had little in common with the two Coventry based firms. Moreover, the latter two were in a relatively poor state when Ford acquired them. Indeed, Ford spent close on \$10 billion in trying to revive Jaguar. Serious mistakes were made in model development. It was soon evident that Jaguar lacked both the capital and expertise to develop cars on its own and this was typified in the case of the 'S' type and the *X400*, known as the 'baby Jag.' In the case of the latter, a lack of capital meant that it had to be based on a *Mondeo* chassis, had a 20 per cent carry over from its volume cousin and was underpowered for the American market at which it was targeted. Indeed, the vehicle was described as a *Mondeo* pumped up with steroids. So poor was the car's performance that output was reduced quickly.⁴²

Jaguar's products also fared badly against the opposition because of a lack of aluminium bodies and of diesel engines which accounted for roughly 50 per cent of all cars sold in Europe. Finally, Jaguar suffered because its products were unattractive in its main market, the USA, where they were considered old fashioned in style and had little appeal to younger buyers. No matter how

hard it tried the firm always seemed to be playing catch up as it lagged behind BMW, Mercedes and Lexus. Additionally, in the early 2000s, US sales proved difficult because of the weakness of the American dollar against Sterling, and it has been argued that this was the trigger factor that led to the closure of Browns Lane in 2004. Finally, perhaps Ford made the crucial mistake of overestimating the strength of the Jaguar brand in international markets.⁴³ Events at Land Rover proved little better. Ford did achieve some synergies with Jaguar in areas such as purchasing and gradually the two firms functioned almost as one when it came to sharing backroom functions. As with Jaguar, Ford had to spend considerable sums of money in having to modernize Land Rover's somewhat antiquated facilities. £130 million had to be spent in the first year alone to upgrade the plant. New models did prove forthcoming and Ford expressed the view that Land Rover could become a company flagship, but other events intervened. These were bound up with Ford's wider problems particularly in the USA where heavy losses were sustained. The firm had been struggling for nearly two decades and in 2006 losses of \$12 billion or £6 billion were sustained. The precise details of how this transpired are not of immediate concern, but eventually under a rescue plan in which nothing was sacred, it was decided to shed non-core businesses as well to close 14 plants. The PAG was but a small part of Ford's empire and so selling it off was a device for raising much needed capital for the parent company. In 2007 Aston Martin was sold to the racing car firm, Prodrive and, as has already been indicated, Tata bought the two Coventry plants.

In sum the Ford/PAG experience with leading brands such as Jaguar and Land Rover can be taken to demonstrate the vulnerability of the West Midlands to the vagaries of multinational enterprise and how the forces of globalisation and external decision-making can render existence precarious. That is not to downplay the serious challenges that faced Ford in their acquisition of firms that so desperately required serious investment and modernization. However, such challenges do raise questions over the decision to go ahead with such difficult takeovers. Additionally the future for Tata, the Indian manufacturer that took control of Jaguar land Rover for \$2.3 billion (or £1.2 billion) in March 2008, must also be framed against the difficulties its predecessors failed to come to grips with. To date Tata have displayed positive levels of integration, committing to producing electric vehicles at its plant in Coventry.⁴⁴ Yet the long-term future of the manufacturer in the region remains unclear.

Conclusions

The growth and subsequent decline of the British Motor Industry in the post WWII era has largely been shaped by both government policy and the underlying traits of the British economy.⁴⁵ Seeking to determine where true causation lies is a perilous exercise since describing all possible reasons may serve to trivialize key factors, whereas to focus on the few may serve to undermine the argument itself.⁴⁶ Nevertheless, some effort must be made to explain the decline of the industry in the West Midlands; structural issues definitely dogged the development of the sector, poor managerial decision-making and a lack of long-term strategic planning by government officials allowed for an economic landscape where international investors were given free reign with limited consideration of the long-term impact on the automotive industry in the region. The context for the decline was the growing importance of international investors and the internationalization of markets.⁴⁷

That the automotive industry in the West Midlands has undergone a painful structural change in recent decades is not in question. Volume production has disappeared, leaving the region precariously dependent on the two luxury producers Jaguar and Land Rover. Additionally, the fall in production has helped bring about a concomitant decline in the components industry. The reasons for this are both historical and structural. For decades the industry has suffered from a long history of firms which have been too small to reap economies of scale and sufficiently high productivity and profit levels to force the pace in high quality model development and market penetration, rendering the industry vulnerable to rising levels of imports. Essentially, this has amounted to a secular decline that gradually gained its own momentum to the extent that almost regardless of company ownership it proved almost impossible to arrest the pace of decline at both BL and Rootes/Chrysler/Peugeot. Finally, at the heart of this was repeated failure to achieve a thorough structural rationalisation of the industry from the 1960s onwards, which for too long left BL in particular as nothing more than a ramshackle collection of factories and poorly developed models which failed in the market place.

Contrastingly, the decline of the volume side was offset by the rise of the luxury end of the trade, but even here weaknesses have exhibited themselves until very recently. The reason for such weaknesses are bound up with the fact that both of the luxury producers were under the aegis of volume producers and so both suffered from similar shortages of capital investment, to the extent

that they appeared as niche players at that end of the trade in comparison with BMW and Mercedes. This is perhaps best exemplified in the experience of JLR under BMW and in the failure of the Ford PAG.

It is normally expected that inwards FDI by multinationals can exert a positive influence on the domestic firms which come under their wing. This certainly has not been the experience in the West Midlands. Inward investing firms such as BMW, Peugeot and Ford all had domestic problems of their own and so were unable to provide the necessary capital and expertise to enable Jaguar, Land Rover and for that matter Rootes to escape from a downward spiral and become more successful than they had been prior to their being taken over. It is clear from the fate of Ryton, Longbridge and Land Rover at Solihull under BMW, Peugeot and Ford respectively that FDI proved no panacea to their difficulties, especially when decision making was made overseas and they could quit the UK so easily under Britain's lax redundancy laws.

The long term health of the industry was not helped by government policy simply because neither of the main political parties has fully embraced a positive policy towards manufacturing industry in general, preferring to intervene only when absolutely necessary in times of crisis as shown by the experience of BL in its many guises, Chrysler and MG Rover. Similarly, it has been argued that government policy towards maintaining the value of sterling and pushing financial services to the detriment of manufacturing industry was a major factor faced by firms in export markets. In this environment UK car firms sourced components from overseas, thereby contributing to the hollowing out of the automotive industry in the region over the past twenty-five years. Finally, how the industry will evolve in the future is highly contentious, but there is little doubt that success or failure will depend upon Tata.

Appendix 1

Table 1: Output of cars in the UK and West Midlands, 1970-2008

Year	Jaguar	Land Rover	Rover*	Peugeot**	Output UK	Total WM	% of UK
1970	–	–	788,737	216,995	1,640,966	1,005,732	61.28
1971	–	–	886,721	281,538	1,741,940	1,108,259	75.29
1972	–	–	916,218	263,843	1,921,311	1,180,111	61.42
1973	–	–	875,834	265,413	1,747,321	1,141,352	65.32
1974	–	–	738,503	261,801	1,523,119	1,000,305	65.20
1975	–	–	605,141	226,612	1,267,695	831,753	65.61
1976	–	–	687,825	244,586	1,333,449	832,111	65.61
1977	–	–	652,064	169,492	1,327,820	821,556	61.87
1978	–	–	611,625	196,481	1,222,949	808,106	66.12
1979	–	–	503,767	102,927	1,070,452	606,695	56.67
1980	–	–	395,820	125,314	923,744	521,135	56.44
Σ1981	–	–	413,440	127,239	954,650	530,879	55.60
1982	22,042	13,235	369,893	56,235	887,679	472,405	53.21
1983	27,977	12,181	433,183	126,503	1,044,597	599,759	51.41
1984	33,342	11,897	371,427	95,122	908,906	471,788	51.90
1985	38,378	14,212	450,892	67,066	1,047,973	532,170	50.23
1986	41,437	14,486	390,240	58,426	1,018,962	513,275	50.37
1987	48,020	20,778	450,726	45,549	1,142,683	519,770	45.48
1988	51,542	24,021	450,666	82,326	1,226,835	608,555	49.10
1989	48,582	31,863	438,816	107,195	1,299,082	622,393	47.91
1990	41,891	47,261	417,351	116,584	1,295,611	623,087	49.09
1991	22,967	35,673	359,951	87,983	1,236,900	506,574	40.95
1992	20,601	39,743	339,054	85,821	1,291,880	458,273	35.95
1993	29,567	50,524	356,280	72,902	1,375,524	509,273	37.02
1994	31,429	71,758	390,856	74,440	1,466,823	568,483	38.75
1995	41,023	99,533	374,418	78,379	1,532,084	593,353	38.72
1996	38,950	96,894	376,323	85,108	1,686,134	597,275	35.42
1997	43,551	93,007	394,379	84,994	1,711,923	615,931	35.97
1998	50,025	149,324	238,611	71,441	1,760,697	599,401	34.04
1999	86,317	154,327	225,772	162,554	1,799,004	628,970	34.96
2000	88,894	159,997	174,885	186,074	1,641,452	609,850	37.15
2001	122,472	139,005	163,144	186,102	1,492,365	610,723	40.92
2002	122,929	155,412	147,037	197,679	1,629,934	623,057	38.22
2003	126,121	147,545	132,789	207,237	1,657,558	613,692	37.02
2004	105,532	149,764	106,088	173,091	1,642,246	534,475	32.44
2005	84,046	175,879	29,604	126,521	1,596,356	416,044	26.06
2006	69,852	175,714	–	75,401	1,442,085	320,967	22.25
2007	54,036	232,548	–	–	–	286,578	18.67
2008	73,910	195,521	–	–	–	269,431	18.62

* BLMC/BL/Austin Rover/Rover Group/MG Rover.

** Figures until 1978 represent Rootes/Chrysler. After this date the figures represent Peugeot.

Σ Until 1981 Jaguar/and Land Rover figures are included in Rover.

Source: Source: SMMT annual reports, 1970-2008.

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⁴⁷ Coffey D, “ Production Counterfeits and Policy Collisions: The Rover Trajectory – a Salutory Tale “ in M Freyssenet (Ed) “ The Second Automobile Revolution: Trajectories of the World Carmakers in the 21st Century “, GERPISA Palgrave MacMillan, 2009