Anatomy of a Reversed Foreign Divestment Decision: General Motors and Its European Subsidiary, *Opel*.

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***Abstract*— During this recent period of economic crisis and rising unemployment, General Motors, the US multinational, announced its decision to sell off Opel, its loss-making European operations. Foreign divestment (FD) decisions are notoriously secret, and often very controversial, arousing strong opposition. Whilst such decisions are difficult to make, they are an essential aspect of corporate international business strategy. Plant closures that involve substantial lay-offs attract scrutiny from governments and policy-makers. This paper explores the recent major divestment proposals by these two global auto producers and the subsequent negotiations with governments in the home and host nations.**

***Index Terms*—Autos; Competition Policy; Foreign divestment; Globalization; Industrial Policy**

I. INTRODUCTION

Foreign divestment (FD) decisions are shrouded in secrecy and this explains the limited research in this area [1]. Divestment is clearly an essential aspect of contemporary business strategy, yet "despite numerous studies on divestment decisions of firms, there is much we do not know about how divestment fits into a firm's broader strategy of growth" [2]. The extant literature on voluntary divestment and FD is very limited. Indeed, research in this area has declined since the 1990s.

The literature evolved as follows: the magnitude of FD from a home country perspective, with an emphasis upon manufacturing MNCs [3]; the FD decision process [4]; the political and public relations dimensions of FD [5]; the host country dimension in terms of causes and implementation of FD decisions [6]; and the theory of FD [7]. More recent studies have examined international retail divestment [8], but recent research in other service sectors is sparse.

FD decisions involving closures and large job losses are seldom unexpected, but instead are prefaced by years of gradual decline and lay-offs. Many MNCs that have closed large facilities have experienced strong criticism and opposition from employees and their representatives, the media, and political figures. The FD process after the closure announcement may be restricted to simply a public relations battle, but may in extreme cases result in illegal worker occupation of the factory, and attempts to orchestrate a consumer boycott of the divesting firm's products [9]. However, given that the FD decision is so difficult to make, stakeholder efforts to reverse the decision are seldom, if ever, successful [10]. Indeed, some MNCs prepare detailed plans that not only anticipate opposition, but orchestrate the responses from unwitting stakeholders. In recent years, though, America's General Motors (GM) reversed a major FD decision, its decision to sell off a majority stake in *Opel*, its European operations. This paper focuses upon the proposed FD process, and corporate-state negotiations, a neglected area of business strategy and international business.

This paper examines the context of the *Opel* situation, the political and regulatory factors in the key locations most affected by the proposed divestment, as well as the role of the European Competition Commission in influencing corporate decision-making. In the case of GM, this decision involved FD that was *defensive* in nature. The paper makes a significant contribution to the FD literature in providing a detailed overview of the factors that led to each company abandoning its FD decision. Given the poor current economic conditions, an intensely competitive environment in numerous industries, the impact of new technologies, and deteriorating corporate performance, many more divestments can be expected. This paper provides an opportunity for companies and governments to learn the lessons from these cases. This paper also provides an opportunity to revisit FD theory.

II. LITERATURE REVIEW

Globalization has resulted in companies increasingly dispersing their international production operations. This can result in a loss of jobs in the home country and create tensions between the MNC and trades unions and politicians in the home country. Critics in a diverse number of home countries accuse MNCs of "de-industralization" and "exporting jobs" [11]. However, the MNC may counteract that relocating production overseas is essential to safeguard employment

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domestically, and necessary for enhancing competitiveness as well as protecting shareholders [12]. This argument is magnified when the MNC is wholly or partially state-owned and has been a recipient of state subsidies.

Multinational corporations (MNCs) competing in a global industry must develop a strategy that manages tensions between localization and globalization [13]. They establish international production operations to enhance their competitiveness by gaining closer proximity to markets, access to lower costs of production and access to raw materials [14].

Economies that attract and retain investment can reap significant economic benefits in terms of job creation, reduced imports, possible exports and spillover benefits [15]. Competition between nations to attract and retain investment is intense [16]. Consequently, economies provide significant financial incentives to attract and retain inward investment [17]. Where the "carrot" does not work, an economy may use the "stick" and threaten the potential divesting MNC with national boycotts or other restrictions [18]. Thus, the MNC's decision-making may be influenced by the extent of government commitment to safeguarding jobs. The divestment process is thus highly politicized, and it is essential that the MNC approach divestment strategically and from a public relations perspective [19].

FD theory [20] has been described as a reversal of foreign direct *investment* theory. For example, Hymer suggests that firm-specifics assets are the key to foreign investment, and loss of those assets would signal a firm ripe for disinvestment [21]. In a further extension of investment theory, is Vernon's Product Life Cycle [22] theory notes that factors of production such as labor costs are significant when determining the location of production. Once this advantage subsides, the evolution of the life cycle would suggest that divestment would occur [23]. Finally, Dunning [24] notes in his Eclectic Theory that there are three advantages essential for foreign investment to occur (firm-specific, internalization and location-specific advantages). Loss of any one of these advantages may actually trigger divestment [25].

FD theory suggests that divestment may occur whenever the MNC loses its competitive advantage, ceases to have an incentive to internalize its operations, or the host economy loses its location-specific advantage(s). Divestments can also arise due to *precipitating circumstances* [26]. It often took the appointment of a new CEO with no attachment to previous investment decisions to overcome this emotional "barrier to exit." Besides, changes in the external environment can be regarded as a key divestment trigger.

Some divestments are *defensive* or a response to "corporate crisis", whilst others are *voluntary* or "positive restructuring" [27]. The former arises when an MNC or its regional operations incur major losses over a number of years as it suffers a notable decline in competitiveness, resulting externally in loss of market share and internally in deteriorating financial results. Qualitative studies of divestment have largely focused on defensive voluntary divestment, and they revealed that the divesting firms had little option but to divest [28]. Indeed, an examination of divested units reveals that very poor performance of the plant or unit was tolerated for many years provided the parent company remained in profit [29]. However, the onset of heavy losses at the parent company provided the *motivation* for FD [30], and triggered a review of operations that led to the closure of a loss-making unit [31. Furthermore, these companies often faced stronger competition for the declining market that the plants served. While the plant closures of the 1980s involved *defensive voluntary divestment* (DVD) whereby MNCs closed plants in order to try and protect their competitiveness in the face of weak performance, there was evidence in the 1990s that *offensive voluntary divestment* (OVD) was emerging as a new trend [32].

The divestment decision is one of the most difficult for executives to make [33]. Divestment decisions may occur when there is a significant deterioration in the conditions of the operating environment which leads to a deterioration in overall or subsidiary performance, thus providing the motivation for divestment [34]. Executives are often very reluctant to make the divestment decision because of its connotations with "failure" [35]. Thus, often divestment decisions are taken only after the appointment of a new CEO, major board room changes, or the emergence of precipitating-circumstances [36].

Much of the extant research focuses upon case studies of divestment and examines the causes of plant closures [37]. The divestment decision is invariably a response to a significant worsening of overall corporate performance. Thus, plants selected for closure can have a long history of very poor performance, but this is tolerated so long as the parent company enjoys satisfactory, overall performance [38]. Divestment decisions are highly centralized, and despite intense opposition from local stakeholders, are never reversed due to external pressures.

Typically, multinationals wind down a plant prior to a formal closure announcement [39]. It is not enough to justify divestment strategically, the MNC needs to have developed a comprehensive public relations campaign that anticipates the reactions of all stakeholders, and have determined in advance their response. Indeed, effective management of the divestment process demands complete preparation for all possible reactions [40]. European multinationals display a greater sense of social responsibility than US MNCs in managing divestments [41]. However, organizational culture is more important than country-of-origin in terms of influencing approaches to divestment decisions and management of the process [42].

Employees' representatives, local media, and politicians often oppose the FD decision and seek to persuade the company to reverse its decision. Usually, this involves arguments that the plant is still profitable and a better performer than a plant in another community, sometimes in the same country [43]. However, the FD decision is so difficult for executives to make, that once a public announcement is made, the decision-makers have finally overcome “barriers to exit” [44] and are convinced of the necessity of divestment [45]. “Barriers to exit” are lower in the case of foreign, as opposed to domestic, divestments [46].

III. GLOBAL AUTOMOTIVE INDUSTRY CONSIDERATIONS

Even prior to the onset in 2008 of the global economic recession, Asian rivals (i.e. from Japan and South Korea) were winning market share in Europe. This more hostile competitive environment was compounded in 2008 by a sharp deterioration in European market conditions [47]. Combined, both created massive over-capacity for European and US auto producers in Europe [48]. Consequently, these producers sought to restructure their European production network, and undertake divestment to align capacity with market demand [49]. However, in Europe’s largest car producing countries, corporate objectives clashed with those of governments that were committed to maintaining their industry and protecting auto workers’ jobs.

The car industry in Germany remains a mix of inward investors and indigenous producers, with the latter accounting for the bulk of auto production. In 2012, Germany was still by far Europe’s largest car producer (i.e. 5.4m cars), despite all its major indigenous companies having established a global production network. Germany is an expensive production location relative to Eastern and Southern Europe, although market conditions in the latter have been particularly weak since 2008. Consequently, Asian, European and US producers are all expanding production capacity in these parts of Europe; even Mercedes, the premium German producer, has established a plant in Eastern Europe.

For decades, the major US car producers in Europe (i.e. Ford and GM) have been seeking to reduce their reliance upon aging plants in northern Europe as they relocate operations to new plants in lower cost locations in Europe. Closing car plants in Europe can prove difficult – although not impossible - in the face of opposition from governments, media, politicians and unions. Between 2007 and the autumn of 2012, only three car plants in Europe had been closed, and one of these was GM’s Antwerp facility [50]. Ford of Europe, which was operating at 65 per cent capacity and suffering heavy losses, finally announced its decision to close three plants in Europe: Genk in Belgium, with loss of 4,400 jobs in late 2014), and in 2013 two plants in the UK [51] where employment legislation is much less onerous than in France or Germany [52]. Whilst economic and competitive considerations encourage a reconfiguration of car producers’ European production networks, the legal and political environment deters restructuring.

IV. GM EUROPE IN 2009

In 2008, GM Europe consisted of four plants at *Opel*, its German subsidiary, two plants at *Vauxhall*, its UK subsidiary, and Poland, as well as one plant in Austria, Belgium, Hungary, and Spain. *Opel*’s four plants (Rüsselsheim, Bochum, Eisenach and Kaiserslautern) accounted for 25,000 of *Opel*’s 45,000 employees. In 2007, GM reported losses of \$38.7bn. By November 2008, the company’s net losses since 2004 exceeded \$70bn, and it had almost exhausted cash reserves. The company was in crisis, and its Chief Executive Officer (since 2000), Rick Wagoner, was determined to avoid bankruptcy [53]. He needed to cut costs, cut debts and raise capital.

A. Opel for Sale and Board Room Changes.

Beginning in early 2009, GM announced that it would seek a partner or sell a part of its loss-making GM Europe in an effort to raise money to restructure the company and revert to profitability. All of GM’s European assets were transferred to Opel, so that now Opel owned all of GM Europe [54] (The Guardian, 2009). However, within months of this major strategic divestment decision, in March 2009 the US Treasury Department’s auto-industry task force asked Wagoner and the entire GM board to resign, and he was replaced by Fritz Henderson [55].

GM signed in late May 2009, a tentative deal to sell a 55 per cent stake in *Opel* to Canadian-Austrian parts manufacturer, Magna International, and Sberbank, a Russian bank [56]. The German government provided *Opel* with €1.5 billion in bridge financing to keep *Opel* operating in the short run [57] (Schwartz, 2009).

GM on June 1, 2009, sought bankruptcy protection, and the Obama administration appointed Ed Whitacre as Chairman of GM. By July, the firm had entered into a bailout agreement with the US and Canadian governments and taxpayers for nearly \$60 billion. One of its priorities was to eliminate unprofitable brands [58]. GM’s international operations, including *Opel* (i.e. its European operations) were not included under the bankruptcy agreement. As negotiations with Magna stalled, other potential buyers emerged: the Belgian private equity firm, Ripplewood Holdings (RHJ) [59]. The RHJ offer appealed to GM as it allowed for GM to buy back a majority stake in the *Opel* division at a later date [60] However, RHJ was yet to make a profit since its inception in 2005, and this undermined its bid with the German government which was seeking assurances to preserve *Opel* as a major employer in Germany. Henderson and GM’s new board approved, in September 2009, in principle the sale of *Opel* to Magna

The Merkel administration pledged a total of €4.5 billion of financing for Magna to acquire GM Europe, an effort seen by most as an attempt to preserve as many German jobs as possible [61]. The deal also included €250 billion each from Magna and Sberbank; €265 million in cost savings from German labour, contingent on the Magna deal materializing; and €600 million from GM.

The other European countries that hosted a GM plant suspected that the German brokering of the Magna deal would favour plants in Germany at their expense, and that non-German plants would bear a disproportionate amount of job losses [62]. These other countries offered incentives for GM to preserve employment in their country. For example, the British Government reportedly offered $800 million in order to safeguard 5,500 GM jobs in the UK [63]. The European Union Competition Commissioner warned Germany that its offer to Magna could not be used to obtain preferential treatment for plants in Germany at the expense of the other countries with *Opel* plants. In response, the German government went much further and announced that its aid package could not be limited to *one* particular offer, and that it would be available to *all* investors. GM was now eligible for the same support offered to Magna. [64]

B. *GM REVERSES ITS DECISION TO DIVEST OPEL (I.E. GM EUROPE)*

GM announced on 3 November 2009, its decision to reverse its FD decision and abandoned its plans to sell *Opel*. GM explained its about-turn due to perceived improved market conditions, the strategic significance of *Opel*, especially *Opel*'s technological leadership in developing small, fuel-efficient vehicles, and the desire to find the most secure and least expensive solution for ensuring the long-term future of *Opel* and *Vauxhall* [63] (van Praet, 2009a). Several other issues influenced reversing the FD decision. Having received a US government bail-out of nearly $60 billion, GM was no longer under pressure to raise funds by divesting assets [65]. The new leadership was concerned about loss of intellectual property to a Russian competitor [66] Once the German government assured the EU and GM that its aid package was also available to GM, this reduced the incentive to divest *Opel* [67].

The German and Russian governments as well as German labour organizations denounced the decision as "completely unacceptable" [68]. German labour vowed an immediate strike, and the Premier of the state of North Rhine-Westphalia, home to the Bochum plant, described GM's behavior as the ugly face of "turbo-capitalism" [69]. *Opel's* CEO since 2004, Carl-Peter Forster, disagreed publicly with the latest decision, and he left the company. Nick Reilly was appointed interim CEO [70]. In contrast, the decision was met with relief by executives from the big three indigenous car producers in Germany (i.e. VW, BMW and Daimler), as well as governments and unions in the other European countries where GM had a plant [71].

C. *Renewal at GM and Restructuring of Opel*

Whitacre in December, 2009 orchestrated the board's removal of Henderson, and he also became CEO. Whitacre regarded Henderson, a long-serving executive with GM, as a product of a "broken culture incapable of changing fast" [72] He appointed Nick Reilly CEO of *Opel* in January of 2010 [73] and GM announced 8,300 job cuts in Europe, including 4,000 in Germany, 900 in Spain and 500 in Britain, as it aimed to reduce its European production capacity by 20 per cent [74].

Although the devolved Flemish government in Belgium had promised *Opel* aid of €500m to retain Antwerp [75] GM announced its decision to close the plant later in the year, resulting in the loss of all 2,606 jobs. Opened in 1924, at its peak, Antwerp had 7,000 employees [76]. Originally, GM had been planning on transferring production of a small SUV from South Korea to Antwerp but instead it transferred production of the two models produced at Antwerp to its South Korean operations [77]. Despite a brief plant blockade, and union accusations that the closure decision breached GM's contract with its European Works Council, the Antwerp plant closed in 2010.

Whitacre resigned as CEO on September 1, 2010, and was replaced by another outsider, Dan Akerson, who became GM's fourth CEO since the board approved the original plan to sell *Opel*. Stephen Girsky replaced Nick Reilly as head of *Opel* in November 2011 [78].

GM formed, in November 2011, a global strategic alliance with France's loss-making PSA [79]. Facing losses for the year of $1.5bn, Girsky announced in December 2012, GM's decision to terminate production in 2016 at its Bochum plant in Germany with the loss of 3,300 jobs [80]. However, as market conditions worsened in Europe, GM announced in April 2013 its decision to accelerate the run-down of the plant, and to terminate all activities at the plant in 2014. Although GM stressed it remained committed to its European operations and promised to invest €4.0bn in *Opel*, rumors persisted that GM may yet seek to reduce its ownership in its European subsidiary [81]. "De-globalization" is the ultimate attempt to protect the best interests of the parent company [82].

V. DISCUSSION

GM Europe, now *Opel*, has reported large and growing losses for many years. Despite facing excess capacity and a deterioration of its finances, GM failed to address the growing problems at its European subsidiary. Finally, GM decided to sell off its European operations only when the parent company itself approached bankruptcy. GM's FD decision conforms to *condition-based* and *motivation-based* theory of FD. The importance of the "new man/men" or *precipitating circumstances* in this FD decision is clear, yet contrary to expectations suggested by FD theory. The importance of the "new man/men" lies in their decisions to reverse the FD decision and commit to maintaining a rationalized *Opel*.

The reversal of the FD decision was based upon a transformation in the financial situation at GM, the parent company. Home country intervention in the form of the bail-out to safeguard the best interests of the US economy, and US jobs, relieved GM of the need to dispose of its European subsidiary. However, the US bail-out did not remove the need for GM to restructure its European operations. Since deciding to retain *Opel*, GM has already decided to divest its Antwerp and Bochum plants in Europe [83], and further closure(s) appear(s) likely if the company is to restore competitiveness in Europe. The formation of a strategic alliance with Peugeot increases the likelihood of further closures.

Once GM announced its intentions to sell its European subsidiary, the German government played a decisive role in seeking to safeguard GM's four plants in Germany and 25,000 German jobs. Germany was also GM's key production location in Europe. When the German government indicated that its aid package was available to *any* buyer of *Opel*, it could hardly have expected GM to reverse its FD decision. However, it underestimated the scale of internal changes at GM in the USA, and the determination of GM's leadership to maintain a presence in a key regional market. The German government was so committed to safeguarding jobs in Germany that it was prepared to rile the "big three" German producers who perceived the aid package as a subsidy to a foreign rival (i.e. either GM or Magna).

Governments in other European countries, especially those to long-established, mature GM plants where employment levels have been falling, were equally determined to safeguard jobs at their GM plants, but they were outmaneuvered by the German government. This case highlights the ability of MNCs to obtain incentive bidding from host governments to retain plants and jobs. Significantly the European Competition Commission played a decisive role in restricting the German government from offering preferential status to its preferred buyer of *Opel*.

VI. CONCLUSIONS

GM's reversal of its FD decision is significant because it affords the opportunity to understand better the FD process and FD theory. Despite its poor performance, and its success in finding a buyer for *Opel*, GM reversed its decision as soon as the need to sell was reduced. In terms of FD theory, the conditions and motivations for FD are clear, yet the role of the "new man" was not to overcome "barriers to exit", but rather to abort the FD decision. This paper highlights the central role of home and host nations in seeking to safeguard national employment levels at huge economic cost, even when to the potential detriment of indigenous producers.

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