Massive job cuts expected

Germany: DaimlerChrysler CEO suddenly resigns

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Investors cracked open their champagne bottles on hearing July 28 that DaimlerChrysler CEO Jürgen Schrempp had resigned. The company's stock price jumped by 10 percent to more than 40 euros, pushing the market capitalisation of the world's fourth largest car maker—behind General Motors, Toyota and Ford—from 36 to 40 billion euros. Rarely has the departure of a CEO caused such a surge in the company's share price.

Within hours, eight of the world's leading investment banks raised their assessment of the company's stocks to "positive." Adam Jonas, an analyst at Morgan Stanley in London, said, "with the resignation of Jürgen Schrempp, the greatest barrier to a higher share price at Daimler has been removed," and raised the forecast for its stock from 38 to 46 euros.

The circumstances surrounding the resignation remain a mystery. He was a leading manager renowned in Germany like no other—apart from Deutsche Bank chief Josef Ackermann—for his avarice and his shameless attacks on the company workforce. He had in recent months come under pressure from international investors. Nevertheless, both the timing and form of Schrempp's departure came as a surprise.

The 61-year-old Schrempp is to formally depart the company at the end of the year and has "renounced" any termination payout or further salary payments, even though his contract was extended just last year until spring 2008. The chairman of the company's supervisory board Hilmar Kopper did not provide any concrete reasons for the resignation, declaring only: "It was not a sacking; he left voluntarily after a meeting with the supervisory board." Just as surprising is that Schrempp—unlike other leading personnel who leave large German corporations—will not take up a position on the supervisory board or even receive a contract as an external advisor. On the day of the announcement, the board did not issue an acknowledgement of Schrempp's services, a fact that was attributed the day after to a "communications error".

Schrempp has been with the company for 44 years, 17 of those on the management board and 10 as CEO. When he took over the reins in 1995, he was celebrated as the hero of the business world. His reputation for pushing through unpopular measures without hesitation earned him the nickname "Rambo of the industry". In 1998 he was nominated by various business magazines, including *BusinessWeek*, as "Manager of the Year."

He acquired his reputation in the 1980s, when, as president of the Daimler-Benz subsidiary Euclid Inc. in Cleveland, Ohio, he spectacularly reorganised and sold the commercial vehicle producer. He proved that he had learnt, and could apply, the same restructuring methods employed by others in the US—mass layoffs, outsourcing and company sell-offs. This earmarked him for greater tasks.

In 1989 he became CEO of DASA, the aerospace subsidiary of Daimler-Benz, which was integrated into the company's overall operations, leading Schrempp to take up a position on Daimler-Benz's management board.

During this period, it was becoming clear that the dream of then-CEO Edzard Reuter to create an "integrated technology company" was threatening to blow up in his face. The corporation acquired firms such as the traditional electronics and household goods company AEG and aeroplane manufacturers Fokker and Dornier, which were all losing market share due to increasing international competition. It turned out to be a debacle for Daimler-Benz.

In order to overcome these problems, Reuter and Schrempp instigated massive attacks against the workforce at the start of the 1990s with the assistance of the trade unions. Within a few years, they reduced employee numbers by 70,000—16,000 at DASA alone—and closed numerous factories, all in spite of militant strikes and protests. Scores of towns and suburbs lost their most important employer.

However, these measures were too little for Deutsche Bank, then Daimler-Benz's main shareholder with over a quarter of the company's stock. Reuter was considered too sensitive, too intellectual and too social-democratic—no longer the right man for the job. After it became clear that Reuter's strategy of retaining investments was going to fail, it was decided to give Daimler-Benz a clean slate. A large portion of the recent capital expenditure was simply written off. In 1995 the company recorded a loss of 5.7 billion deutschmarks, and Schrempp replaced Reuter.

By "concentrating on the automobile business", Schrempp brought an end to the "diversification" and dismantled the "integrated technology company" of his predecessor. He broke companies up and initiated a wave of sell-offs that provoked huge protests by workers, including those at Fokker, Dornier, AEG and later at the turbine and ship motor manufacturer MTU. He used DASA as investment capital in the German-French company EADS, Europe's most important aeroplane (through Airbus) and weapons manufacturer, of which DaimlerChrysler now owns one-third.

Schrempp left no doubt as to the aim of this policy. "Profit, profit, profit!" was his motto. He became one of the most important pioneers in Germany of the new capitalist ethic imported from the US: "shareholder value"—the interests of the stockholders above everything else.

During this period, increasing stock market euphoria and a wave of mega-mergers combined with the encouragement he received from the German and international financial elite for his "success". The stock market value of Daimler-Benz doubled between 1995 and 1997. All this quickly went to his head.

To create the "world's largest automobile company with significant market share in the most important regions of the world," he engineered a merger in 1998 with the US carmaker Chrysler, which he called a "wedding in heaven". Shares in the company climbed by a further third and reached a highpoint of over 100 euros. In 2000, he organised the purchase of a 31 percent stake in the Japanese auto manufacturer

Mitsubishi and a 10 percent stake in the Korean automaker Hyundai. During his term in office the company significantly increased its product range in the small-sized car market, including the Smart car.

At the same time, he ensured that his own salary followed the American example, in the process setting new standards in Germany. In 2002, he was estimated to have received a total salary of 10.8 million euros, becoming the highest-paid manager in the country. During his entire term as CEO, he is reported to have received a total of over 80 million euros.

By the end of the 1990s, it became increasingly obvious that the economic growth forecasts of market analysts were way off actual developments. Indeed, internal competition over market share was already accelerating. The devaluation of South East Asian currencies after the crisis of 1997-98 had a heavy impact on the auto industry.

Japanese and American automakers proved to be very sensitive to these developments and launched a new wave of rationalisations. Daimler-Benz's new acquisitions—Chrysler and Mitsubishi—encountered increasing sales difficulties, leading to billion dollar losses. Schrempp found himself under pressure and started the company's own restructuring at Chrysler and Mitsubishi.

In November 2000, he handed over the leadership of Chrysler to Dieter Zetsche, who has since turned Chrysler around to be the most profitable of the US automakers—the only one winning market share. He achieved this by putting 40,000 workers onto the streets, prompting similar layoffs at GM and Ford. Zetsche proved himself to be the new hard man of DaimlerChrysler, prepared to trample over people.

However, billion-dollar investments in Mitsubishi in Japan were not enough to help it in its fight against powerful rival Toyota, and Schrempp faced further criticisms from investors and within the company. In 2003 the stock price was back to its 1995 level of 30 euros and Schrempp was characterised as the "greatest destroyer of capital of all time". Since 1998 the value of the firm has sunk by around $50 billion. In 2004, *BusinessWeek* reacted by naming him the "Worst Manager of the Year".

Zetsche began to organise resistance inside management over the company's losses, which led to DaimlerChrysler pulling out of Mitsubishi altogether in spring 2004.

Attempts by Schrempp to revamp his image via an "employment pact" in summer 2004, which guaranteed 160,000 jobs in Germany by reducing salaries by 500 million euros over the same period, failed. The heart of the company, the Mercedes Car Group, encountered one problem after another: first with sales of the Smart car and then with construction quality defects in the C and E class models. The first half of 2005 saw its European car sales decrease by 5.7 percent. BMW, on the other hand, increased the number of new car registrations by 16.1 percent, and the VW subsidiary Audi by 13.4 percent. Restructuring measures for the production of the Smart car are envisioned to cost 1.2 billion euros.

It is against this background that Schrempp's resignation and the ecstatic response of the stock market has to be understood. These events demonstrate that Schrempp was no longer trusted to carry out the next stage in the company's far-reaching changes, which are considered necessary under tougher market conditions. His replacement by Zetsche, the ruthless restructurer from Chrysler, confirms this fact and must be taken by workers as a clear warning of what is to come.

Immediately after Zetsche was named as Schrempp's successor, speculation was rife about a possible cessation of production of the Smart car or a reduction of the workforce at the Mercedes Sindelfingen factory near Stuttgart by 5,000 employees. This factory has the capacity to produce 500,000 vehicles per year, but is currently producing only 400,000. Zetsche promptly sought to squash these rumours. There were to be no "ifs and buts" about the 2004 "employment pact".

There are also fears in the German political establishment that Schrempp's personal orgy of enrichment while at the same time enforcing mass layoffs and salary cuts could prove a political bombshell rivaling a recent controversy surrounding Deutsche Bank chief Josef Ackermann. Ackermann publicly flaunted his status as Germany's top paid manager (he earns 11 million euro annually) while implementing massive job cuts.

His was the latest in a series of business scandals to have struck German industry. Former head of the German Mannesmann group, Klaus Esser, was revealed to have secretly pocketed 30 million euros in 2000 for his part in the sale of Mannesmann to the Vodafone company and the German car company Volkswagen is also currently being investigated for corrupt business practices involving management and the trade unions.

After Esser and Ackermann business and political circles are fearful of further revelations of corruption and unbridled profit taking by company executives. Even Schrempp's predecessor, Edzard Reuter, criticised the "shamelessness with which leading managers in the last years have snatched money for themselves with the help of executive board members."

As for Schrempp, his greed has also been described by Jürgen Grässlin, who has written a biography of the auto boss and is the representative of a small shareholders protection organisation. In an interview with the Deutschlandfunk radio station, Grässlin was asked why Schrempp went voluntarily and without a payment, and answered: "He has forfeited around 21 million euros, the total of payments he would have received for the years 2006, 2007 and 2008. We estimate that his salary was about 7 million euros per year.

"These facts themselves do not suggest that Schrempp went voluntarily. Schrempp is a person who was more than anxious to continually acquire additional income on top of his salary. It was amazing, even with the smallest things. I thought to myself, 'There's no way that can be right, that he can pay himself that.' Therefore I don't believe that either his departure or the relinquishment of his salary was voluntary. I am fairly sure that in autumn a bombshell will explode in the company, due to Schrempp's involvement in businesses and dealings that were not legal." Grässlin refused to elaborate on the subject.

There are presently rumours that Schrempp could become involved in a corruption scandal like the one that recently gripped VW. Various sources have pointed to possible dealings with secret companies in South Africa, during Schrempp's tenure as head of the Mercedes subsidiary. Schrempp then, as now, continues to have a close relationship with the South African government.

Grässlin's warning of an autumn bombshell could explainwhy several members of management used a higher stock price to exercise their stock options and made profits worth hundreds of thousands, before news of a scandal were to leak.

Deutsche Bank has also made headlines. After the announcement of Schrempp's resignation, it immediately sold 35 million DaimlerChrysler shares, reducing its ownership from 10.4 to 6.9 percent.

Whatever the immediate causes may be, Schrempp's departure shows that another wave of restructuring measures and productivity increases is on the way, not only at DaimlerChrysler, but at other automakers and in other industries.

In the past ten years alone, under Schrempp's leadership, revenue per employee at DaimlerChrysler has more than doubled from 169,000 to 369,000 euros per year. In the end, this was not enough to ease the international pressure on him.

The markets punish the slightest fall in profitability with a reduction in the company's share price. Even large companies are increasingly at risk of being taken over by aggressive international investment funds, which are continually searching for opportunities with a high rate of return for their ever-larger amounts of unproductive capital. Fund managers coldly calculate short-term profit possibilities and are determined to finally put to rest the social-partnership model of the past.

Just like Ackermann at Deutsche Bank, the new leadership at DaimlerChrysler under Zetsche, based on higher profitability at the expense of the workforce, is designed to forestall any moves by these funds.