

## Louvain School of Management

# Commercial Strategies To Follow In Periods Of Economic Downturn

*A Study on the Automobile Industry*

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*I would like to start by thanking both my mother and my brother. Without their love and support I would have never even come close to reaching the point where I am asked to write a Master's thesis. I owe them an incredible debt that I know I will never be able to repay. I am forever grateful to them.*

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## **Abstract**

Despite extensive research and thus a vast amount of prior literature on the subject, there is still limited agreement over which course of action should be followed in order to allow firms to maximize performance both during recessions as well as in the recovery phase of recessions. The purpose of this thesis is therefore to utilize and add to prior literature by elaborating a set of recommended strategies for firms in the automobile industry to follow to ensure the best possible performance in periods of economic downturn and during the subsequent recovery periods.

Six different strategies emerging from prior literature were identified as being capable of steering firms in the automobile industry into the direction of good performance and good recovery. These were then tested by considering case study data collected at three distinct automobile manufacturers in Belgium. In-depth interviews were conducted with the highest ranking member at the companies' offices in Belgium.

The results indicate that firms in the automobile industry seeking to maximize recessionary as well as post-recessionary performance should adopt the following strategies: Firstly, companies should seek diversification opportunities. With recessions come opportunities to make smart investments and enter into new market segments. Secondly, so as to mitigate risk and share the financial burden brought about by a recession, firms should seek external corporate development (through M&A's or strategic alliances) provided that the partners are of cultural and strategic fit.

Furthermore, aggressive expenditure in R&D should be maintained and the firms should continue to release new products. Improvements to an enterprise's products and services must persist so as to avoid losing ground to rivals. New products catered specifically to consumer demands should continue to be released in order to stimulate demand during and after the recession.

Lastly, firms with unique characteristics or products should emit signals that are susceptible to influence market valuation and thus financial performance. Market signalling allows a firm to

send positive signals to potential investors and other stakeholders which can help maintain share price as high as possible in spite of the arduous economic climate in which the firm is in.

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## 1. Introduction

Many studies have been carried out regarding the impacts of different past recessions as well as the different potential responses that firms may have in order to maximize performance despite the tough economic climate. However, very few studies have attempted collect the wide array of work done and combine it so as to form a unified set of diverse and concrete recommendations that will allow enterprises to sustain their level of performance in periods of economic downturn.

In the past, research on different strategies during recessions has been centralized around a specific field. For instance, researcher Ajit Kambil, Global Director at Deloitte Research in Boston, focused on a predominantly finance perspective, whereas renowned author Gary L. Lilien tackled the problematic by adopting a purely marketing perspective. The underlying point of the aforementioned examples is that prior studies have been centred upon one particular domain, whether it be finance, marketing, M&A, etc.

The objectives of this dissertation are multiple. Firstly, to combine and merge different past research into one set of recommended strategies to propose to firms in order to aid them in better managing future recessions. Secondly, and in response to the point above, it will be comprised of a multidisciplinary approach comprising a combination of different fields. In other words, the problematic of maintaining good performance and potentially even thriving during and after recessions will be supplemented by recommendations stemming from different fields. Finally, the main objective is to further prior literature by elaborating a strategy comprising different concrete recommendations that firms can implement to maximize performance.

The focal part of the analysis will be centred around the recession of 2008. The reason for this is that whilst most recessions present communalities in terms of causes and fallout, the mere recency of the latest financial crisis presents a unique opportunity to obtain input from people who had to steer their firms to safety during that period of time. Reading and studying past events has its utility, however living and being able to recall the intricacies of past events allows for a more empirical and rigorous recollection.

Furthermore, the sheer magnitude and repercussions that the crash had on economies worldwide is non-negligible. For instance in terms of severity (defined as the fall of British and US equities and GDP), it was the worst crash since the Wall Street crash of 1929 (The Economist, 2014). Therefore, its recency and economic impact provide the most useful base for an analysis on commercial and financial strategies to follow in periods of economic downturn.

It is nevertheless worth noting that whilst the focus will be on the 2008 crisis, this does not exclude references and analysis based on other crashes as well.

The outline of the thesis is as follows: Firstly, the economic and social impacts of the financial crash of 2008 will briefly be considered. Next, there will be a review of existing literature on the topic of financial and commercial strategies during times of economic downturn with the goal of elaborating different hypotheses that will ultimately be tested.

Following this, the empirical work will be undertaken. The industry on which the hypotheses will be tested is that of the automobile industry, an industry that was impacted particularly strongly during the crash. Qualitative case study data will be collected at three big automobile manufacturers in Belgium. The three companies concerned are Kia Motors, Suzuki Motor and Mazda Motor. Interviews with the highest ranking member in the respective firms' Belgian and Luxembourgish offices will be conducted with the goal of either refuting or confirming the hypotheses stemming from the literature review.

Finally, the results will be discussed, potential research limitations assessed and the conclusion will comprise the different strategies that the case study analyses confirmed as being necessary in helping firms to maximize their recessionary and post-recessionary performances.

### *1.1 Origins of the 2008 crash*

The goal is not to delve deeply into the causes of the financial crash of 2008 but rather to focus more on the variety of potential strategic responses to it. Nonetheless, given that the work of this thesis will be primarily centred around the 2008 recession, a brief outline of its origins and its effects on the automobile industry will be considered.

There were a number of causes that led to the “longest recession since World War II” (Rich, 2013). Most importantly, there was the phenomenon commonly known as the “subprime crisis”. It revolves around loans made to consumers that would allow them to purchase their own homes.

Banks began lending money to high risk borrowers who could either barely afford to make the required payments or who had a poor credit history. Bankers then pooled together these high risk mortgages and presented them as low risk securities known as collateralized debt obligations, CDOs for short (The Economist, 2013).

Banks believed that the high risk nature of these lending's could be mitigated by considering the independent nature of price increases and decreases in real estate across the different parts of the United States. This belief turned out to be false and when the bubble eventually burst, prices collapsed throughout the entire country. Dubious dealings continued when rating agencies like Standard & Poor's and Moody's began assigning to the CDOs triple-A credit scores (ibid).

In general, the validity of such credit rating agencies have often been called into question due to the nature of the relationship between the agency and the entity. Essentially, it can be argued that assurance over the pertinence and accuracy of such credit ratings is limited given the fact that the agency is contracted by the entity itself to provide a rating and therefore enters into a client relationship with it. This point can clearly be evoked within the context of the subprime crisis (Krantz, 2013).

Agencies rated what were essentially high risk securities as basically being of the lowest possible risk and this cannot simply be attributed to negligence or incompetence, the nature of the relationship that these agencies have with the entity should also be considered. Whilst this is not the subject of this current dissertation, it is nevertheless worth considering due to the fact that investors are often swayed and influenced by these ratings which is what occurred prior to the financial crash and thus resulted in them purchasing CDOs that in reality were far from low risk (ibid).

The crash of the housing bubble did not come without warning. Already in 2005 the market had peaked and US home ownership stood at 70%. Prices began and continued to fall throughout the course of 2006 which resulted in various subprime lenders beginning to default. Consumers struggled to pay back their loans as their homes' value began to drop well below purchase price. News of these bankruptcies spread fast across various avenues and in 2007 it became clear that the subprime crisis could not be solved uniquely through the financial market (Singh, 2013).

Ultimately, an issue that had predominantly commenced in the United States of America began to have heavy repercussions globally and this led to the interbank market freeze in 2007. Central banks of countries worldwide had to band together to limit further critical damage. Liquidity support was provided to financial institutions to keep them from bankruptcies that would have ensured the collapse of markets globally (ibid).

A pillar of the financial market, trust, imploded and disaster ensued. A big red flag was raised on April 2<sup>nd</sup> 2007 when New Century, the biggest independent subprime mortgage lender in the USA, defaulted. This was followed by the bankruptcies of various giant European subprime mortgage lenders such as IKB in Germany. Furthermore, French bank BNP Paribas halted all withdrawals from three funds tied to subprime mortgages. Trepidation turned to anxiety and panic which themselves turned into mistrust. (Jenkins, 2017).

Mistrust grew and it became apparent that financial regulators had committed a big error in letting the Lehman Brothers bankrupt in 2008. This lack of trust led to lenders being reluctant to lend which considerably slowed down the economy and therein the recession of 2008 was instigated (The Economist, 2013).

In synthesis, whilst the subprime crisis was a pivotal cause in accelerating the financial crash of 2008, it was merely the product of "a financial system in which speculation and financial gambling had run rife" (Trichet, 2009).

## 1.2 Impact on the automobile industry

Given that the automobile industry will be focal point of the empirical study, it is also important to give a description of the impacts of the latest economic downturn on the industry. In order to achieve this end, the effects on the sector as a whole will be considered.

The automobile industry was one of the industries that were most impacted during the 2008 financial crisis. Various evidence suggests that a large reason for this was the increasing reluctance of banks and other financing entities to hand out loans. Therefore numerous consumers were unable to get the necessary credit that would have financed their car purchase and as a result, sales in the automobile industry took a big hit (OECD, 2010).

It is undeniable that the car sector was hit from all points of view. Whether it be at a more macroeconomic level, by considering notably the unemployment rates, GDP and production growth, or on a more microeconomic level, by considering the sales growth. Figures 1 and 2 highlight these two factors.

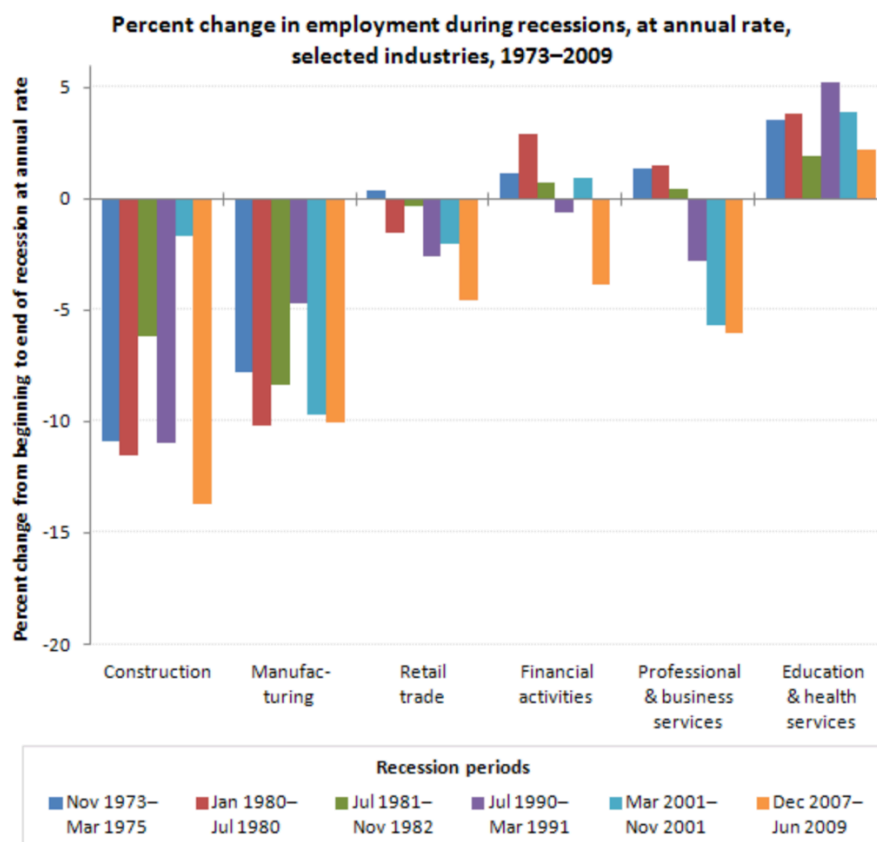


Figure 1. Percent change in employment during recessions, at annual rate, for selected industries for the period of 1973–2009. Data from the Bureau of Labor Statistics (2010).

A comparison of the changes in employment in different sectors was considered by the Bureau of Labor Statistics (2010). The results indicated that in most sectors the 2008 recession induced the highest change in employment rates since 1973. However, this turned out not to be the case for the automobile industry which is situated notably within manufacturing. In fact, the period between January and July 1980 presented a marginally bigger change. That being said, a decrease of 10% in employment within the industry remains significant.

Furthermore, when considering the automobile sector, it is important to consider the impact that it has on other industries beyond manufacturing. Whilst it is a relatively small industry, the particularity is that it has close ties and therefore repercussions on numerous sectors, in particular that of construction (OECD, 2009). Considering construction in the figure above, it is apparent that the biggest impact the downturn had, amongst the considered sectors, was on the construction industry where employment decreased by 14%. To reiterate, the relevant takeaway point is that the shock on the automobile industry caused widespread shocks on a large part of the economy.

Remaining on a macroeconomic perspective, work has been done by the OECD in 2010 analysing the quarter-on-quarter growth rates of GDP and automobile production between the years 2000 and 2009 (refer to appendix A for the exact figures). Both GDP and production growth decreased greatly between 2007 and 2009 in all countries studied, whether it be in European countries, in Asian countries or in the United States. Between that period, levels reached their lowest in the decade considered.

Moving onto a more microeconomic axe, in a study carried out by Statista (2018), observable in figure 2, it is apparent that retail sales in the United States dropped significantly in 2008 but more importantly in 2009. It took 6 years for the industry to reach the pre-recession level of sales. Whilst this is a study based on the vehicular sales in the US, the same impact was felt in Europe as well. Figure 3 provides the necessary assurance over this statement.

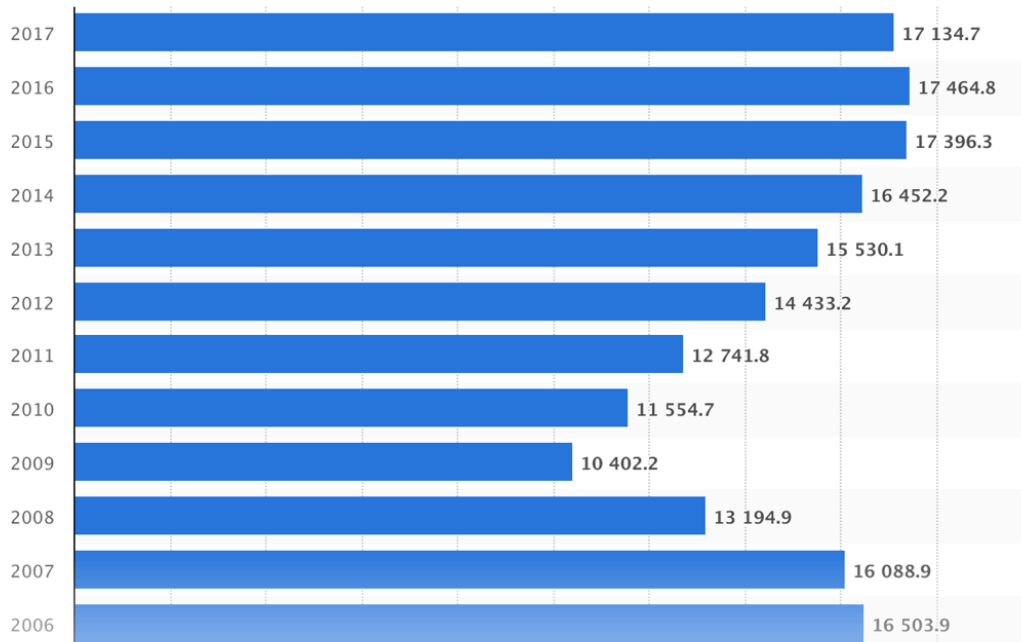


Figure 2. Light vehicle retail sales in the United States from 1977 to 2017 (in 1,000 units). Data from Statista (2018).

Figure 3 considers the total new commercial car registrations in Europe compared to 2007. Whilst some months in the first quarter of 2008 presented an increase in the registrations, this quickly changed over the course of the year. Overall, there was an average drop of 32.4% in 2008. This represents a devastating drop of close to one third. Evidently, the lower the new car registrations are, the lower the sales made by automobile firms.

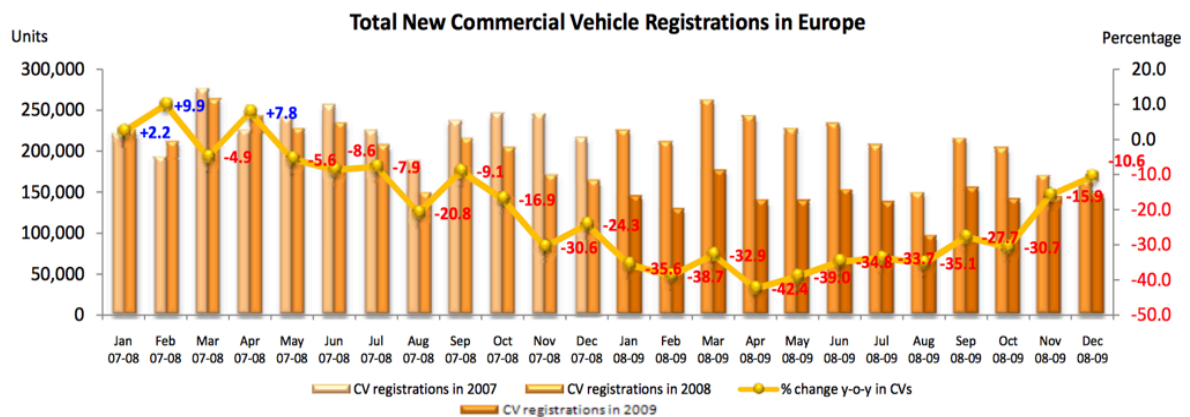


Figure 3. The total new commercial vehicle registrations in Europe. Data from the European Automobile Manufacturers Association (2010).

All this data explains why the automobile industry is the industry on which the analysis of this thesis will be based upon. It is apparent that the financial crash of 2008 had devastating effects

on the sector. It makes the study and testing of commercial and financial strategies to improve recessionary performance at companies within this industry compelling.

An industry that has ties to many other parts of the economy and that is comprised of manufacturers and firms that have seemingly struggled more than expected during the recession is one that has the potential and necessity for improvement.

In addition, it is an industry that has primarily been made up (for the most part) of the same firms for decades. Despite this, the majority of these companies are still not set up strategically in a way to withstand and utilize recessions as potential opportunities. As a result, looking at companies that have been around for a long time and analysing what has repeatedly gone wrong for them could lead to a breakthrough in what they should be doing to properly manage a recession, both during and after it.

Also, there has been no similar study on the Belgian automobile industry in the past which means that this research could not only turn out to be novel, but could prove to be effectively impactful in practice.

Ultimately, if the proposed strategies prove to be helpful to firms in this sector then they are worth studying further with the goal of potential application to other industries as well.

### *1.3 Contribution to Existing Literature*

In a recent interview with Bloomberg, George Soros, world renowned investor, issued a stark warning to the European Union and insisted that another major financial crisis was looming. In this current period in time, uncertainty exists regarding the upcoming economic situation making the subject of this thesis particularly relevant.

This thesis contributes to existing literature in a number of ways. Firstly, it extends existing research on different recessionary strategies to follow by considering the practical feasibility behind these so as to improve and potentially maximize performance both during and immediately after periods of economic downturn. Prior literature will help form a set of hypotheses that will be tested through the analysis of three prevalent manufacturers in the automobile industry.

Furthermore, the thesis provides further utility in that it analysis different strategies stemming from different domains. It therefore aims to pool together prior literature centred around different fields so as to offer a globalized set of recommendations.

Lastly, the results suggest a change in the automobile industry as it pertains to the different strategies that the firms within the market believe will help them improve on their performances (compared to those in and around the 2008 crisis) during future recessions. The thesis provides further empirical evidence that firms are beginning to veer towards the strategies that prior literature has stipulated are effective.

## 2. Literature Review and Hypotheses Development

A lot of prior research has been done regarding the different ways of optimizing performance in periods of economic downturn. The goal of this dissertation is not to reinvent the wheel but to pool together existing ideas and research so as to elaborate a unified set of strategies to follow.

Prior literature will therefore be mobilized so as to form the different hypotheses. These will then in turn be tested through three different case study analyses. This section will comprise the literature review as well as the hypotheses formulation.

### *2.1 Diversification and investment in new markets*

Many studies have looked into the opportunities and allure of diversification and investment even during a financial crisis (e.g Kambil, 2008). Gregg and Geroski (1997) were able to prove that more diversified firms in the UK significantly outperformed less diversified firms during the recession that occurred in the early 1980s. Furthermore, more diversified firms have historically profited from higher relative valuations during recessions (Volkov & Smith, 2014).

The relative better performance of diversified firms can be, in part, attributed to the principle of diversification of risk (Tsai, Lin & Chen, 2015). Seeing as recessions may hit different industries in different ways, some getting impacted more negatively than others, and some getting impacted at different time intervals than others (Jiang, Koller & Williams, 2009), diversified firms may be present in sectors that are heavily affected but the negative shock may be reduced if the same firms are present in another industry that was not impacted drastically.

Arguments have been presented that highlight the fact that diversified firms entering recessions usually fare better, however for the firms that have not yet diversified, recessions may offer the right opportunities to finally do so. Kambil (2008) put forward the point that stipulates that periods of economic crisis offer firms the opportunity to make purchases at reduced fees which ultimately will benefit them once the crisis has ended.

Indeed, it is advisable to invest in new markets during these periods because of the reduced prices of assets (Gulati, Nohria & Wohlgezogen, 2010).

Furthermore, it is a good chance for firms to seek out new distribution channels. Seeing as contracts are often renegotiated during recessions with suppliers willing to decrease their prices at the expense of their own margins, companies may be able to purchase cheaper materials and achieve added cost efficiency (Pearce & Michael, 2006). New distribution channels open the door for firms to diversify their product offering given the new and larger scope of materials available as well as the keenness of suppliers to open up their business at reduced prices (ibid).

In addition, firms present on numerous markets have access to an accrued amount of consumers. This is a key factor in growth irrespective of the economic climate because intuitively the more consumers a firm has, the more sales it makes and the more markets it is able to reach as a result (Santander, 2016).

For enterprises with large financial resources, recessions provide a ripe opportunity to enhance their long term positions through diversification (Whittington, 2014). Entering new markets is rendered easier due to the fact that prices to acquire existent firms on these markets are lower and bidders are less likely to arise (Pearce & Michael, 2006). As such, companies can profit off economic downturns by exploiting the lower prices, the lesser competition and the fewer potential bidders thus furthering their positions on different markets.

All this being said, researches have also emphasized the dangers of careless diversification. Whilst people globally agree that diversification can be extremely useful for firms in periods of recession, it can also be the catalyst to some of their downfalls. This is notably the case when firms decide to go all out in pursuit of new ventures on new markets thus leading to a reduction in investment and focus on the core competencies and the core activities of the firms in question (Collins, 2011).

The documented potential benefits of diversification during periods of economic downturn have led to the formulation of the following hypothesis:

***Hypothesis 1: Automobile firms that make different purchases, invest in new markets and diversify during recessions will be able to profit off and better sustain performance during future financial slumps.***

The various investment opportunities that exist during recessions can lead to potential diversification which would ultimately then positively impact both post-recession and recession performances.

## *2.2 Marketing and Performance*

In a bid to cut costs, firms often identify marketing budgets as an easy way to reduce expenditure (Srinivasan, Rangaswamy & Lilien, 2005). However, in a study carried out in 2010 concerning the financial impacts of marketing strategies in recessions, Lilien and Srinivasan found that in the case of B2C firms, accrued marketing expenditure translated into higher profits and better performance. In other words, B2C firms that had spent more in marketing actually outperformed (profit-wise) those that had cut their marketing costs.

It is widely agreed that the notion of a perfectly rational consumer is an unrealistic one, every consumer does not take a perfectly optimal decision carefully weighing costs, benefits and existing preferences (Samson, 2014).

Consumers do not behave like perfectly rational decision-makers, this is why companies are beginning to consider behavioural economics further and spending increasing amounts of money in building stronger relationships with their consumers and changing the way their products or services are perceived emotionally (Cummings, Dhar & Welch, 2015).

During the financial crisis of 2008, the problems in the financial markets led to a difficulty in meeting debt obligations for households and businesses alike. This ultimately decreased investment and consumption which induced higher unemployment rates as firms responded to lower demand with cost cutting in the form of mass firings (Claessens & Kose, 2017).

Therefore, in periods of economic recessions, relative importance accorded to goods and services by consumers changes. What they perceive as essential products are prioritized over 'luxury' products. Consumer purchases of durable goods decreases as the relative importance of these decreases as well (Crawford & Reed, 2014).

The fact that consumers are not perfectly rational mixed with their reduced expenditure on non-essential products makes it very important for firms to ensure that their marketing campaigns

have positioned their brands as being emotionally necessary so as to exploit these two factors. The goal for enterprises is thus to market their brands in a way that induces emotional reactions in potential and current consumers (Grossberg, 2009).

A concrete example of a firm thriving despite the 2008 financial crisis would be Nespresso. This was in large part due to their marketing. Beyond having positioned their brand as luxurious through the notable use of George Clooney, they were able to incite emotional reactions in consumers upon the consumption of a Nespresso coffee. The positive feeling of belonging to an exclusive club pushed consumers to continue their purchases of Nespresso products which ultimately was a big factor in the company's sustained performance (Smale, 2009).

Furthermore, often times in bad economic climates, firms offering luxury products are forced to decrease their prices. Whilst this may send negative signals to investors, if marketed correctly, it can also serve as a tool that in fact ends up aiding the firm in maintaining performance. Emotion-inducing marketing, or value marketing, can portray the image of the reduction in price as the firm being sympathetic towards its consumers, understanding their current predicament and making a gesture in their favour. Positioning the brand as being sympathetic and valuable can ultimately boost sales and maximize performance in recessions (Grossberg, 2009).

Historically, the big argument levelled towards the field of marketing is that the returns were not quantifiable, but in our day and age an analytical marketing approach is now not only possible, but necessary (Sweetwood, 2016). As digital marketing becomes one of the integral touchpoints for the majority of firms to reach their consumers, the amount of available consumer data increases and with it subsequently comes the need to carefully examine this data (Agrawal, 2016).

This new age of digital marketing makes it possible for firms to be close to their consumers which in turn allows them to build up a real rapport with them, to tailor their products according to consumer preference and demand. This is a point evoked by Peters and Waterman (2015) who also went on to say that demand will be higher irrespective of the economic climate when consumers receive goods or services that are in line with their preferences. Tailoring and offering products that consumers themselves enjoy and yearn for will lead to sustained performance. Analytical marketing is key in achieving the aforementioned goal.

Beyond being used as a defensive tactic geared towards demand retention/maintenance, marketing can also be used more offensively in order to capitalize on opportunities presented by the recession (Lilien & Srinivasan, 2010). As competitors seek to cut costs through a reduction in marketing, the firm can go the opposite direction and adopt aggressive marketing to gain market share by acquiring rival consumers (Pearce & Michael, 2006). Even if the acquisition of new consumers does not occur during the downturn, aggressive marketing will ensure that the firm's brands are those that are in the consumers' minds during the recovery phase.

Pearce and Michael (2006) also approached the problematic of spending or not spending on marketing by considering the financial dimension. Whilst on the face cutting marketing expenditure is an easy way to reduce costs, they argue that it is financially favourable to invest on marketing seeing as the return on investment increases during periods of recession given the fact that marketing becomes cheaper.

In addition, beyond a short-term vision of financial performance during the financial crisis itself, performance during the recovery phase and beyond should also be considered. Through a study of 822 firms' marketing expenditure during the 1991 downturn, Kamber (2002) discovered a positive relationship between marketing expenditure and post-recessionary performance (notably in sales growth).

Finally, whilst the main focus has been on larger firms offering luxury products, in a study involving 118 SME's in the manufacturing industry in the United States, it was shown that marketing is also vital for SME's to survive during recessions and subsequently prosper as well (Pearce & Michael, 1997).

Existent research on the considerable advantages of marketing during as well as after recessions has led to the elaboration of the following hypothesis:

**Hypothesis 2:** *As opposed to cutting costs by reducing marketing budgets, automobile firms should maintain or increase marketing expenditure so as to improve financial performance during and after the recession.*

### *2.3 External Corporate Development*

Two forms of corporate development will be considered here: Strategic alliances and mergers and acquisitions.

#### *2.3.1 Strategic Alliances*

There have historically been two main different views regarding the problematic of how a firm can obtain a competitive advantage (Dyer & Singh, 1998). The industry-based view, associated mainly to Michael Porter, stipulates that a firm derives its competitive advantage in large part due to the industry environment for instance due to the presence of barriers to entry, bargaining power, threat of new entrants and so on (Porter, 1980).

The resource-based view on the other hand, made popular by the extensive works of Wernerfelt (1984) and Barney (1991), considers that competitive advantage is obtained through firm heterogeneity, their valuable, rare, inimitable and non-substitutable resources and capabilities dictate their ability to successfully compete with their rivals.

A third school of thought however, named the relational view, has emerged which insinuates that the competitive advantage of a firm is embedded in the advantages stemming from the network of relationships in which the firm is involved in. It is essentially an interorganizational competitive advantage (Dyer & Singh, 1998). This is the view that will be mobilized and studied in the form of strategic alliances.

A strategic alliance is defined as a co-operative agreement between two or more firms that has as a goal the furthering and improvement of the effectiveness of the partners' competitive strategies through the sharing of knowledge and resources (Kang & Sakai, 2000). Dyer, Kale and Singh (2004) distinguished between two forms of alliances, equity alliances (where one or more of the partners invest in an equity stake in the other) and non-equity alliances. It is worth making the distinction granted that they will ultimately be considered together.

Alliances provide to firms a large number of advantages. Firstly, they allow them to realise synergies in a bid to reduce costs. Whether they be modular synergies whereby resources are managed independently but results are pooled so as to maximise profits (in this case non-equity

alliances are ideal) or sequential synergies whereby the resources are managed interdependently but one company will start a task and then pass it onto the partner for completion in which case equity-alliances would be more useful (ibid).

An alliance that has served as concrete evidence of the cost reducing potential through economies of scale and scope is that of Renault and Nissan. The two automobile constructors entered into an alliance in 1999 and their partnership concerned reducing costs and increasing revenues by partnering up on engineering, manufacturing and logistics, purchasing, and human resources (Groupe Renault, 2016).

Significant costs were saved due to joint-purchasing and revenue for both enterprises increased considerably given the complementarity of their resources, Nissan being stronger in manufacturing and Renault being stronger in cost management, factory ergonomics and supplier relationship management (Fagan & Yoshino, 2003).

The Nissan-Renault alliance underlined a further strength of strategic alliances, that of learning and internalization. Firms can benefit from shared knowledge and expertise, this is particularly prevalent in the case of companies with complementary resources and capabilities (Isoraite, 2009). Alliances provide an opportunity for firms to gain tacit knowledge, a knowledge that is not generally on sale in the open market (Doz & Hamel, 2001). The more a partner can internalize skills and know-how, the more it can begin to improve and optimize other parts of its business activities, even those not concerned by the alliance, thus leading to a potential reduction in costs of production or an increase in product quality (ibid).

The caveat to the aforementioned argument is that a firm must have what Cohen and Levinthal (1990) described as “absorptive capacity”. It is the ability of a firm to quickly assimilate external knowledge and ultimately apply it to further commercial ends. If a firm has poor absorptive capacity, it will not benefit from the learning and internalization that often results from alliances and will therefore not be able to innovate.

Furthermore, and in line with the recommendation of using recessions as a means to enter new markets, alliances provide a vehicle to accomplish this end. Firms use strategic alliances in order to enter new markets that were otherwise closed to them (The Economist, 2009). Strategic alliances with local firms are a powerful tool for a company looking to enter foreign markets.

Foreign markets provide difficulties in terms of cultural differences, government restrictions and more. As a result, partnering with a local enterprise serves as a facilitator to entry (Doz & Hamel, 2001).

A pertinent example of governments serving as entry barriers in the automobile industry would be the reluctance of the Chinese government for an extended period of time to allow any supplier other than Mercedes-Benz to enter the minivan and sports utility vehicle segment on the Chinese market. Strategic alliances with local firms could serve as a tool to bypass this government enforced entry barrier (ibid).

With recessions come uncertainty and as consumers struggle to meet due payments, their investments are reduced which impacts economic activity (Claessens & Kose, 2017). As economic activity slows down, it becomes interesting for firms to disperse risk when making new investments. Strategic alliances allow them to do just that (Wilson & Tuttle, 2008). Investing on the release of new innovative products is a necessity, even during economic downturns, but the risk of launching new products that may lose money is a big one for firms who then look towards strategic alliances as a means to share the financial burden (Taylor & Lienert, 2017).

This phenomenon is currently observable in the automobile industry as it pertains to autonomous cars with companies such as BMW and Daimler turning towards alliances to mitigate the large investments needed in self-driving technology (ibid).

BMW's vice-president of autonomous driving projects Klaus Buettnner, in an interview with Reuters in 2017, said: "Everybody is investing billions. Our view was that it makes sense to club together to develop some core systems as a platform." He went on to say that given the large challenge of developing automated automobiles, many of the companies are "swimming in the same sludge" insinuating that pooling resources and forming alliances would be the way forward to spread the risk and potential initial losses.

Finally, alliances do not necessitate large immediate financial commitments and the partners can back out of them quickly and easily should they not deliver the expected results (The Economist, 2009).

Despite all of these potential benefits, there are dangers linked to strategic alliances. For instance, there may be high behavioral uncertainty which pave the way for moral hazard and partner opportunism (Hoffmann & Schaper-Rinkel, 2001). Furthermore, if there are appropriability concerns, whereby the fear is that the other firm will appropriate key strategic knowledge or competencies through the partnership, then alliances may on the contrary deteriorate performance (ibid).

In addition to these, other risks also exist which is why it is important to put in place formal and relational governance mechanisms (Hoetker & Mellewigt, 2005), to put in place safeguards that give the partners assurance that their common investments will be protected for a durable amount of time (Dyer & Singh, 1998) and to establish and follow rules of cooperation in order to maximize the chances of the alliance being a successful one (Hughes & Weiss, 2007).

All of the benefits linked to strategic alliances have led to the following hypothesis:

**Hypothesis 3a:** *Automobile firms that are involved in strategic alliances in periods of economic downturn perform and recover better than those who are not.*

As mentioned previously, a strategic alliance will not succeed in any economic cycle if the choice of partner is not compatible. Therefore, with the choice of the right partner, it can be theorized that alliances may be a pertinent option in rendering better performances during recessions. The potential of cost reducing synergies and economies of scale, of a reduction in costs through knowledge gains/internalization, of risk sharing and of new market entry (thus of new customer acquisition) may serve as a potential catalyst for performance maintenance and successful recovery (once the effects of the crash begin to subside).

### *2.3.2 Mergers and Acquisitions*

Gemunden and Frensch (2007) define a merger and acquisition (hereafter referred to as M&A) as being a “conjugation of firms characterized by a high level of bonding, and abandonment of economical sovereignty, which implies that at least one of the partnering firms is in a superior position.”

Whilst there is a difference between mergers and acquisitions, this difference is insignificant within the scope of this thesis given that the central focus will be on the potential performance enhancing aspects of company integration in general. As such, moving forward they will not be distinguished unless a point is valid for one and not the other.

As discussed previously, in the case of strategic alliances, a big risk is tied to potential appropriability and behavioural concerns. Should this risk be high, then acquisitions should be favoured. The reason for this is the need for control. If the fear of moral hazard or opportunism be large, the partner firm needs to have significant control over the situation so as to ensure that this risk is mitigated (Hoffmann & Schaper-Rinkel, 2001).

In addition, alliances may result in high and continued transaction costs in which case acquisitions are a more appropriate option. Likewise, enterprises with poor absorptive capacity (inefficient learning capabilities) may also rather be better suited to acquisitions as opposed to strategic alliances (ibid).

Much like strategic alliances, the potential for large cost reducing synergies/economies of scale through the combination of activities and physical assets is great (Cohen, 2010). In line with the above argument concerning appropriability concerns, acquisitions are particularly potent when it comes to reciprocal synergies whereby cost reductions are obtained through intense knowledge-sharing (Dyer, Kale & Singh, 2004).

As previously discussed, the prices involved with acquiring other companies is at a reduced level with rival bidders also less likely to emerge (Michael & Pearce, 2006). Therefore, for companies that are financially solid, recessions can open the door to furthering competitive position through mergers and acquisitions. Seeing as firms must also position themselves to emerge from recessions strongly, apt acquisitions can allow them to do just that (Hardy & Rajan, 2009).

Moreover, one of the reasons for which firms performed poorly during the last financial crash was corporate mismanagement (Rushe, 2011). This lends credence to the corporate control hypothesis that stipulates that M&A's offer opportunities for enterprises to take over what they perceive as insufficiently run companies posting poor results in order to improve their performance simply through better management (Cherepanova, 2017). This ultimately would

allow the acquiring firms to emerge from the recession in a stronger competitive position (Hardy & Rajan, 2009).

In a 2007 study based on the biggest companies in the world, Bruce Nolop, former CFO of Pitney Bowes, finds that the firms considered have not only relied heavily on acquisitions to achieve growth and their strategic goals, but that their managers believe that despite the challenges, acquisitions are often cheaper, more rapid and less risky than organic growth if the correct mechanisms are put in place (Nolop, 2007). Acquisitions allow firms to bypass entry barriers and gain immediate market presence through the purchase of already well established firms (Lee & Lieberman, 2010).

All this being said, for M&A to be a serious tool for performance enhancement in recessions, it must be done properly because in a McKinsey study, Deutsche and West (2010) find that the failure rate of M&A's stands between 66% and 75%.

In considering this form of corporate development, it is therefore necessary to carry out extensive due diligence (Cullinan, Le Roux & Weddigen, 2004), assess strategic fit (Finkelstein & Kim, 2009) as well as cultural fit (Appelbaum et al., 2010) and the speed and degree of integration (Bauer & Matzler, 2012). Lastly, what goes without saying is the fact that in order to make such investments in periods of economic downturn, the acquiring firm must be financially solid to begin with (Harding & Rajan, 2009).

Given the prior considerations, the following hypothesis has been elaborated:

**Hypothesis 3b:** *Corporate development through M&A allows automobile firms to grow and maintain performance despite the recession.*

#### *2.4 Operational Efficiency and Avoidance of Extreme Cost Cutting*

Firms often have a tendency to lean towards extremes. In other words, in periods of economic recession, costs are cut excessively whereas in boom periods, companies engage in over-spending and over-investing (Aaker & Mascarenhas, 1989). Firms that engage in excessive cost-cutting, such as mass employee sackings and reduced expenditure, end up reporting

reduced ROE both during and in the recovery phase of a financial crisis (Michael & Pearce, 1997).

McLaughlin (1990) through his various studies echoed the same sentiment by noting that firms that had not excessively retrenched went on to achieve larger long-term sales and market growth than their rivals that had performed large cost cuts.

And yet despite these studies, a 2009 McKinsey Quarterly survey has shown that 79% of firms have largely cut down costs as a direct response to the financial crash of 2008 with 47% of the executives contacted believing that in hindsight it did not help their companies properly ride out the arduous economic climate.

Instead, enterprises should rather strive for gains in operational efficiency as opposed to excessive cost cuts. Companies often enter into panic mode when tough times fall and thus look to retrench when a more prudent tactic would be to not become overly defensive (Gulati, Nohria & Wohlgezogen, 2010). The recovery phase post-recession is often marginalized which means that when the economy begins to pick up again, firms struggle because they have too extremely slashed costs (Michael & Pearce, 2006).

The stereotypical and ‘knee-jerk’ path often followed is to extensively lay-off employees (Kambil, 2008). Van Dalen and Henkens (2013) investigated the effects of downsizing during the great recession and found that while in theory it is a logical course of action, the effects are ambiguous. Laying off workers often entails large costs which sometimes outweigh the desired productivity and profitability benefits.

In addition, and outside of the negative market signals sent out by downsizing (Band & Tustin, 1995), it has negative impacts both on the organizational and human levels (Gandolfi et al., 2011).

All in all, firms should thus seek to avoid myopia induced by excessive cost cutting (whether it be in the form of large employee lay-offs or other) as this strategy may increase short term gains but at the expense of long term prosperity (Michael & Pearce, 2006).

**Hypothesis 4:** *Automobile firms that veer towards cost efficiency as opposed to excessive cost cuts perform better during and after the recession.*

### *2.5 Increased R&D and New Product Introduction*

Henry Ford once famously said: “There is no use waiting for business to improve...price cannot be met by lowering quality or by short-sighted economy.” Despite this, recessions have historically served as periods in which managers have cut costs and retrenched significantly as it pertains to developing new products and services (Srivastava, 2010).

Introducing new products of superior quality whilst rivals stall on innovation and cut R&D provides to a firm an opportunity to capture the existing, albeit reduced, consumer demand. Reducing investments in R&D may have serious longer term repercussions in the form of damage to competitive position and market share growth (Pearce & Michael, 2006).

The notion of first-mover advantage therefore becomes relevant. Firms can have more impactful new product launches by preempting their rivals because the later a firm waits to launch a new product, the more products that have already been launched on the market thus making it more challenging to render the product launch a success (Talay, Pauwels & Seggie, 2012).

Lilien and Srinivasan (2010) investigated firms in both the B2B and B2C markets and found that in both cases, the firms who introduced new products and maintained R&D investments were able to increase both their stock return and profit. Furthermore, in a 2007 study on 15 different industries, Tubbs found that firms that had increased their R&D expenditure performed significantly higher than their rivals during the post-recession recovery phase.

As consumers become more reluctant to spend on non-essential products or services in periods of economic downturn (Srinivasan & Sivakumar, 2011), it becomes vital for firms to continue to invest in R&D so as to increase the quality of their offering to a level that corresponds to the perceived increase in price as well as to bypass the reluctance of consumers to purchase luxury products (Gurkov & Settles, 2011).

Outside of improving competitive advantage and preempting competitors to emerge from the recession strongest, such economic periods also provide to firms a unique opportunity to acquire top and elite talent that have been laid off at other firms due to cost cutting. This also helps in furthering a firm's current and long-term competitive position (Musso, Padhi & Schorling, 2009).

**Hypothesis 5:** *Increasing R&D expenditure and launching new products will lead to better performance during and after the recession.*

## 2.6 Market Signalling

Spence (1973) was one of the first authors to extensively study market signaling which he defined as the providing of signals as a means of conveying information in the presence of information asymmetry. Spence went on to cite market signals as a viable way to communicate with investors as it pertains to important information. Recessions represent uncertain times and as uncertainty increases, as does the importance of signaling (Janney & Folta, 2006).

A large amount of enterprises prepare their books according to the accounting norm of fair value. The international accounting standards (IAS) board through IFRS 13, defines fair value measurement as being based on an exit-price notion whereby market value dictates measurement. The signals a company emits to the market therefore become vital as it is through the market that the company is valued.

There are numerous ways for companies to emit market signals and numerous motives for them to do so. A couple of these will be considered. Firstly, these can be useful in manipulating the market to maintain current valuations notably as they serve as a signal of accrued product quality (Rao & Ruekert, 1994).

In periods of downturn, consumers perceive the decision to try a new product or service as risky seeing as they cannot anticipate the quality of the offering until trying it (Coulter & Coulter, 2002). Emitting a signal of good product quality is therefore very important (Camarero & Martin, 2005).

In addition, outside of the perception that the firm is sympathetic to the consumers' financial situation (Grossberg, 2009), lowering prices to below short term profit maximizing levels also serves as a signal sent to various stakeholders (competitors, shareholders, clients etc.) that the firm can prosper despite the price cuts due to its low costs. By pricing lower than possible, the company shows that it has a low cost efficient production model (Jerome & Hans, 2010).

In addition, market signaling provides a potential explanation for why companies decide to pay dividends despite the fact that share price increases would be a more tax-efficient alternative to reward investors (The Economist, 2001). Whilst the use of dividends has perplexed people for decades, studies have often showed the positive impact that dividends have on stock price (Ambarish, John, & Williams, 1987).

Announcements of dividends provide management an opportunity to bridge information asymmetry between themselves and the investors (Lonie, Abeyratna, Power, & Sinclair, 1996). All this to say that dividends may therefore be a tool used by firms to announce to their investors that they have a strong positive outlook (The Economist, 2001) in spite of the economic uncertainty.

During recessions, enterprise valuations take a hit and a way to potentially neutralize this impact would be for firms to opt for open-market stock repurchases. The reason for this is that stock repurchases send signals to the market that their stock has been under-evaluated and that operating performance is expected to improve in the near future (Huang et al., 2013).

Overall, the manipulation of different market signaling methods as a means to impact enterprise performance and valuation through the market and various stakeholders is a difficult topic to gauge. Nevertheless, the extent of the potential impact of these marketing signaling methods on the maintenance of firm performance is a phenomenon that will be considered during the empirical portion of this dissertation. The following hypothesis has therefore been formulated:

**Hypothesis 6:** *Market signaling can aid automobile firms in maintaining or improving both financial performance and market valuation.*

### **3. Practical Application to the Automobile Industry**

#### *3.1 Methodology*

The goal of defining a set of concrete strategies to follow in times of economic downturn is based on data that is obtained qualitatively, namely through in-depth interviews. The interviews were carried out with people directly involved in defining their respective company's strategic orientation during recessions. As mentioned previously, the study was carried out on the automobile industry.

For practicality purposes, representatives of different manufacturers on the Belgian market alone were interviewed. Given the fact that the global policies and ideologies of the brand remain the same irrespective of market, country or continent, the expectation is that the results stemming from the interviews are generalisable to the company in its entirety.

##### *3.1.1 Case Study Research*

Again, it was important prior to the commencement of the empirical work to find participants who are directly involved in the global strategy and the direction in which the company evolves in. The reason for this is that in order to gain a real and pertinent insight on a company's various recessionary and post-recessionary strategies, a person directly involved with defining these is needed. The people interviewed were therefore high ranking members in the decision-making process.

There are multiple reasons as to why this research favored qualitative data obtention in the form of interviews. Firstly, when dealing with a subject as broad and complex as this one, it is important to understand the intricacies behind the rationale of using the strategies that firms used during the last recession. Interviews are used to provide context to outcome data, allowing for an in-depth understanding of what occurred (Boyce & Neale, 2006).

The outcomes for firms of the last recession are known, it is now important to understand specifically why they occurred as well as to attempt to gauge what could have improved the situation for these firms.

Furthermore, the strategic decisions that firms take are very much dependent on human decision-making. Furgerson and Jacob (2012) once said that at the heart of all qualitative research is the interest in uncovering the human rationale behind decisions. Interviewing is a potent way to extract the rationale needed within the scope of this dissertation.

When dealing with past events, often times it is possible to understand everything that went on through the numbers and publicly released information that stemmed from these events. However, as it pertains to the internal details that condition the strategies and the operational decisions of the firms during recessions, the globality of the required information cannot be deduced through public means (such as the firms' financial statements for instance).

As such, it is necessary to gain the insight from people directly involved in the decision-making process to understand exactly what happened during past experiences. Interviews provide the necessary means to understand experiences and past events (Doody & Noonan, 2013).

### *3.1.2 Data Collection*

Semi-structured interviews were carried out. This was the best way to extract as much information as possible seeing as there was no other chance to interview the same people again (Bernard, 1988). An interview guide with broad and general questions regarding the strategic orientation of the firms during the prior recession as well as a list of topics to cover (the different hypotheses) was used. Three main open questions were asked:

1. How do you assess the impact of the last recession on your company's performance?
2. What strategies did your firm use at the time?
3. What would you do differently come the next recession?

The follow-up questions depended on how the firm had done during the last recession as well as the respondents' answers to the aforementioned questions. Each interview was allowed to develop naturally irrespective of the different directions in which they went. The goal was to let the interviewees speak as much as they wanted about anything that they found relevant to the underlying goal of the interview. This allowed for the minimization of interviewer bias throughout the interviewing process.

Ultimately however, given the list of topics to be covered, if some were not covered throughout the interview, general questions (not conveying the interviewer's personal thoughts) were asked in a bid to gain the interviewee's insight on these topics. The interviews were then subsequently transcribed and analyzed.

### *3.1.3 Selecting the Case Study Firms*

Three interviews were carried out with high-ranking members of three major companies that have been present in the automobile manufacturing industry for decades and thus who have been present during numerous past recessions.

The companies were selected on the basis of their performances during the 2008 recession. The objective was to analyze a company that had not performed well, one that had performed extremely well and one that had a mediocre performance. The reason for this is that different insight can be obtained through various companies that lived the recession differently.

For instance, the firm that did not perform well can convey key information on a dual basis. Firstly, it can detail its unsuccessful strategy at the time and provide a benchmark of some strategies not to take during recessions. Secondly, seeing as it had the time to reflect on the situation, the representative of the firm (that will be interviewed) can therefore detail the strategies that they would adopt during the next recession that would differ from those adopted in 2008, strategies that they believe would guarantee them better performance next time around.

In a report emitted by the European Commission in 2016, it was stated that entrepreneurs who fail with the opening of their first company often end up very successful the second-time round. The reason stated was that learning from mistakes can help people succeed well in the future. Applying this logic to the case study of the firm that did not perform well, they made several strategic mistakes and were victims of circumstance. The firm is therefore in a good position to comment on their prior shortcomings and what they are convinced would work next time around.

On the basis of what their companies had done and what the interviewees felt as if they should have done, the hypotheses were tested.

The representatives of the following brands were interviewed and will thus form the basis of the practical testing of the different hypotheses:

1. Mazda Motor
2. Kia Motors
3. Suzuki Motor

A brief description of the firms as well as an analysis (based on their reported share prices as per Bloomberg as well as their financial statements) on the extent to which the recession impacted them will precede the interview-derived results.

### *3.2 Mazda Motor*

What makes the study of Mazda Motor so interesting is that, as can be seen below, they did not perform particularly well during the recession of 2008. Studying the various mistakes that they made as well as the changes that they have implemented in their strategy to ensure that they do better next time around will prove to be an important test of the hypotheses elaborated in this thesis.

Mazda Motor made mistakes but that gave them a good opportunity to step back, assess and rectify these mistakes. As a result, the insight that the interviewee, Matthias Sileghem, managing director of Mazda in Belgium and Luxembourg, will be able to provide to this study will be invaluable.

#### *3.2.1 Mazda Motor: Company Outline*

Mazda Motor is a company founded in 1920 that is present on numerous major markets and that manufactures and sells automobiles, auto parts and trucks. It is amongst the top Japanese car manufacturers in the world (Bloomberg, 2018) having sold a reported 1.6 million units in 2016 globally (Mazda, 2017). The firm's corporate vision is to share their passion and love for cars with people in order to aid them in moving forward with their lives in a sustainable and effective way (ibid).

### 3.2.2 Mazda Motor: Impact on Performance of the 2008 Recession

The impact of the latest economic crisis on Mazda will be analysed dually: Firstly, by considering the evolution of the company's share price before and after the crash. Secondly, the consolidated financial statements for the years of 2007-2009 will be considered.

Table 1 depicts the closing share prices of Mazda shares between 1999 and 2017. We can instantaneously see the impacts of the 2008 recession on the valuation of the firm's shares. In 2008, Mazda Motor's share price stood at 5,8€, down from 16,8€ from the previous year (2007). This represents the largest all-time stock price percentage decrease in the firm's history. It stood at a recorded 65%. The original Bloomberg extracts on which the numbers for table 1 were derived from can be found in Appendix B.

It is also interesting to note that it took Mazda 6 years to recover their share price to a level above which it was in 2007 prior to the crisis. This would hint at difficulties not only during the recession, but post-recession as well.

Table 1: Closing share price of Mazda Motor on the last working day of the year between 1999 and 2017.

| Year | Closing Share Price (in EUR) | Variation     |
|------|------------------------------|---------------|
| 1999 | 22,107                       | -             |
| 2000 | 13,562                       | -38,7%        |
| 2001 | 10,045                       | -25,9%        |
| 2002 | 8,862                        | -11,8%        |
| 2003 | 10,693                       | 20,7%         |
| 2004 | 11,457                       | 7,1%          |
| 2005 | 19,342                       | 68,8%         |
| 2006 | 25,883                       | 33,8%         |
| 2007 | 16,812                       | -35,0%        |
| 2008 | <b>5,844</b>                 | <b>-65,2%</b> |
| 2009 | 8,002                        | 36,9%         |
| 2010 | 10,746                       | 34,3%         |
| 2011 | 6,815                        | -36,6%        |
| 2012 | 7,644                        | 12,2%         |
| 2013 | 18,757                       | 145,4%        |
| 2014 | 20,158                       | 7,5%          |
| 2015 | 19,180                       | -4,9%         |
| 2016 | 15,542                       | -19,0%        |
| 2017 | 11,168                       | -28,1%        |

Note: Closing share price. Adapted from Bloomberg (2018). Copyright by Bloomberg in 2018.

Figure 4 represents a graphical representation of the evolution of the share prices. It allows for a clearer visualisation of how long it took for Mazda Motor to regain their pre-recession stock price. Their stock hit an all-time high in 2006 only for it to hit an all-time low 2 years later. This further accentuates the immediate and devastating effects on a firm of a recession.

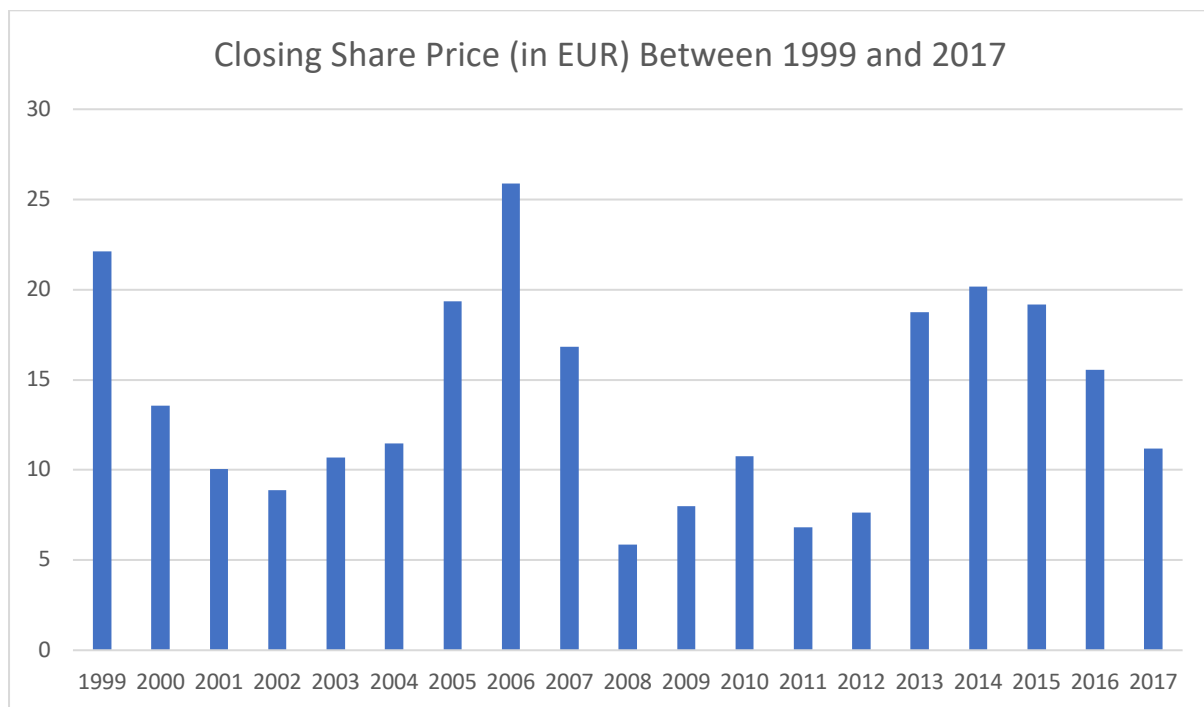


Figure 4: A graphical illustration of the evolution of Mazda Motor's share price between 1999 and 2017. Data from the Bloomberg database (2018).

All this being said, it is undeniable that the market may undervalue a company's stock for one reason or another. For example, investors are more likely to invest in glamorous stocks of promising tech start-ups as opposed to already established manufacturers (Fontinelle, 2011). The price as per the stock market may therefore not be indicative of a firm's true value. As a result, it is also important to directly consider Mazda's consolidated financial statements.

Before doing so however, it is worth noting that Mazda's accounting periods end on March 31<sup>st</sup>. A comparison of results will therefore occur for the accounting period starting in 2007 (and ending in 2008) and another starting in 2008.

The official consolidated financial statements reflect a similar story to that derived from the decrease in share price. In the financial year of 2007, Mazda reported a net profit of 91.835 million yen which is roughly equivalent to 583.519.590 euros (using the European Central

Bank's yen to euro exchange rate on March 31<sup>st</sup> 2008). However, a net loss of 71.489 million yen (around 454.384.084 euros) was made the following year.

This transition from profit to loss represents a large decrease of 178% from one year to another. A big reason for this decrease is the loss on impairment of fixed assets which reflects the reality that the market valuation of Mazda had decreased starkly.

Beyond the net loss, Mazda Motor's global retail volume decreased by 8%, consolidated sales revenue was down by 27% and operating profit was also reduced by 18.7 billion yen (equivalent to around 119 million euros).

### *3.2.3 Mazda Motor: Results*

The interview took place within the scope of the testing of the hypotheses based on Mazda Motor company. The interviewee was Matthias Sileghem, the managing director of Mazda Motor in both Belgium and Luxembourg.

Mr. Sileghem, as managing director of the brand in two countries, plays an important role in conditioning the company's European strategy.

#### *3.2.3.1 Diversification Opportunities*

As documented previously, recessions theoretically provide firms with good opportunities to invest in new endeavours at reduced prices which will ultimately benefit them post-recession and during future recessions. The topic of diversification and recessionary investments naturally came up and Mr. Sileghem could not insist enough on the importance of investments in such periods.

“Everybody hopes and thinks that the recession will end at some point. So the thing is should we be prepared before the recession or should we change investments during a recession having an impact after the recession? Limiting investments during a recession is always dangerous because you may lose competitiveness after the recession. If there is a recession, how do you handle the financial impact and should it be done by reducing investments? I'm not so sure. Launching new initiatives is a different matter.”

The importance on competitiveness and post-recessionary recovery of investments is evoked. That being said, Mr. Sileghem also alluded to the dangers/risks of entering new endeavours in a period as perilous as a recession. In order to mitigate the risks of diversification, Mr. Sileghem mentioned strategic alliances as a way to diversify despite an uncertain economic climate:

“That is what Mazda is planning to do now for example with Toyota. The partnership is around R&D and specific developments which are needed to evolve in a certain direction without harming the individual brand positioning and brand development of the two brands.”

Overall, Mr. Sileghem insisted on continued investment and on the fact that recessions are not destined to halt a company’s activities, but he also made his reservations around diversifying activity known. Ultimately, if coupled with strategic alliances (like their new alliance with Toyota Motors), he did concede that the diversification of Mazda’s activities, to be more congruent with the “internet of things” and increased connectivity aspects (through connected cars), is in motion, irrespective of the economic period in which the company is confronted to.

He believes that connected cars are the future of the business and Mazda is looking to diversify into that field as it could prove to be largely revenue-enhancing thus allowing them to improve their recessionary performance.

### *3.2.3.2 Increased Marketing Expenditure*

Prior research had begun to establish causality between maintaining marketing investments and good recessionary performance within certain industries. Therefore the question considered here is whether marketing holds an important place during recessions for firms in the automobile industry and more particularly, for Mazda Motor.

Even though marketing was cited as the reason that Mazda exists today, Mr. Sileghem, upon being asked which aspect of the costs during recessions would typically be cut, did not hesitate to say marketing costs would be the first to be reduced.

“Operational costs like marketing. If there is a financial crisis, there is less demand than right now but it’s also a cost-reduction that you can make immediately. Marketing is very important or else we would not exist here as a company. Our marketing expenditure is always the same as everyone else’s on the market. If we cut by 10% then the others cut by 10% and our share of voice will stay the same. I don’t think that other brands would react differently in saying that they will spend more in marketing to take more competitive advantage. But I think that it depends on how long the crisis takes.”

Two main reasons emerged in favor of reducing marketing expenditure. Firstly, it is a cost that can be instantaneously cut without too much of a negative impact given the fact that demand is at a reduced level. Secondly and most importantly, Mazda makes sure to cut their marketing proportionally to their rivals. In other words, the cutting of marketing expenditure does not impact Mazda’s market share or presence because the company feels that competitors are reducing their marketing on a similar level.

Intuitively that offers a firm that increases marketing expenditure an opportunity to capitalize on the reduced presence of rival brands on the market but this thought ultimately was not affirmed in discussing with Mr. Sileghem.

#### *3.2.3.3.1 The Importance of Strategic Alliances*

It had previously been theorized that the use of strategic alliances could allow a firm to maximize their performance in periods of recessions. This topic was one of the first to naturally arise from the discussion and it became clear quickly enough that strategic alliances have been and continue to be an important strategic option for Mazda Motor.

That being said, a big reason in Mr. Sileghem’s opinion for Mazda’s struggles during the recession of 2008 was their equity alliance with Ford Motor Company. Upon being asked about the impact of the last crash, Mr Sileghem said:

“It impacted it quite badly because one of the shareholder’s, which is Ford Motor Company, which was a 33% shareholder, sold from day-to-day a large part of the stake that they had because the recession hurt more Ford at the time than Mazda. The thing is that Mazda needed to find urgently a huge amount of money which means that the

debt increased drastically. So it was not a stable situation for Mazda. There was more impact due to the change of ownership and the means to get the money. Having huge debt at that time and seeing how to handle that made Mazda's situation different to the other companies in the sector. It was a double problem. The market collapsed, there was the crisis and on top of that there was a need to find new shareholders and see how they could reassure these new shareholders."

Whilst Mazda has historically, and presently, showed an openness to engage in strategic alliances, the company recognizes the major risks. The one that was insisted upon is the loss of identity and control. Mr. Sileghem noted that the troubles of Ford Motors in 2008 then dragged Mazda into further trouble seeing as the former needed to immediately sell off a large portion of their shares in the company. The immediate response of Mazda at the time was to seek further alliances to soften the blow.

"They could have at that time looked for other major alliances with car companies (like Fiat or GM). We are very happy that we didn't. At that time, for a short period of time, yes it would have helped. But longer term if you see what the potential alliances Mazda could have had at the time, like GM, well GM is selling everything that is not their core business or their core territory and so now 10 years later we can see that that would not have been a good alliance."

Ultimately no further alliance panned out and despite the short-term relief it would have provided, Mr. Sileghem felt as if on the longer term, it was for the best. Reactionary alliances in his opinion do not work in the long run and that it is important to consider meticulously the choice of the partner which is what Mazda have done.

"However finally, there is a new alliance with Toyota where they understand each other better than with American or maybe European companies from a cultural perspective."

Similarly to the literature review on the matter, the importance of cultural fit was mentioned. The hopes for the Toyota alliance are higher given their compatibility in terms of strategy, ideology and culture.

In summary, Mr. Sileghem believes that alliances can be a potent tool for firms to improve their recessionary performances under the conditions that firstly, independence between the firms is maintained, non-equity alliances, and secondly that the choice of the partner is carefully considered, by assessing cultural fit for instance.

#### *3.2.3.3.2 The Benefits of Mergers and Acquisitions*

Much like strategic alliances, it was theorized that M&A's can also be useful not only during recessions (purchases of rivals to gain market share can occur at reduced prices), but also post-recession. Admittedly, the topic of M&A's was not entertained for too long. It was briefly brought up but beyond agreeing that it can be used to spread risk whilst investing in recessions, nothing more was added.

The reason that this was not elaborated on further was due to Mr. Sileghem's stance on equity alliances. As mentioned previously, the belief over at Mazda is that, in light of what happened in 2008 when Ford had an equity stake in the company, the most effective form of external corporate development is that of non-equity alliances.

Furthermore, Mr. Sileghem identified numerous potential dangers tied to equity partnerships (whether they be equity alliances or M&A's). Commenting on the advantages of having been forced to abruptly deal with Ford's exit from Mazda as well as not having entered into a new alliance to mitigate the impact, he said:

“It obliged Mazda to search for its own direction in product development and in positioning and they were not dependent on an external shareholder in the business who positions each brand in the Mazda portfolio in a different way. The positioning would have been dependent on the shareholders and not of Mazda. The problem they had with Ford is that they lost their identity a little but they ultimately took it back by being independent.”

Equity-based corporate development presents a lack of independence according to the managing director of Mazda BELUX. Products, positioning and financial investments would be dependent on another entity which would still be the case in an M&A situation. As a result,

the matter was not pressed further and it was implied that the outlook on M&A's, or any form of equity-based partnership, is a rather negative one from a Mazda perspective.

#### *3.2.3.4 Cost Efficiency over Reactionary Cost Cutting*

In the theoretical portion of the thesis, extensive evidence was highlighted suggesting that excessive and reactionary cost cutting, in the form for example of large lay-off's, is a course of action that has traditionally been favored and continues to be favored for firms today. However, numerous arguments point towards the utility of operational and cost efficiency instead. The ideology of cost efficiency is one shared by the Mazda brass.

Mazda's financial statements for the accounting period of 2008 showed a drastic decrease in costs. This is what made Mr. Sileghem's remarks about cost efficiency all the more interesting. It would appear that lessons were learned from 2008 seeing as an immediate cost reform was put in place.

“That is why the cost structural reform plan in Japan was put in which is really a strategic axis that is very important next to product development. I think it's very important to have this already in place. And they were forced to do so because up until last year they were in a negative debt position and now they are in a debt position as it should be (the company is worth more than the debt they have which is a positive signal to the shareholders). It's only possible if you seek cost efficiencies which means that during a crisis you go a little bit further but that will not harm the operations that are ongoing. They worked strongly on a reform plan keeping costs under control, cost improvement. That makes the company stronger in the case of a recession.”

Mazda worked hard to reform their cost structure and streamline their operations. This will put them in a stronger position during future recessions because their goal is to avoid reactionary cost cutting that could further impact operations and operational performance. The example brought up by Mr. Sileghem to demonstrate the negative impacts on operations of excessive cost-cutting is that of lay-off's. When talent is lost, operations are impacted both during and after the crisis.

### *3.2.3.5 Increasing R&D and New Product Release*

The sixth hypothesis was based on the necessity of maintaining, if not increasing, R&D budgets even during recessions, as well as ensuring that new products are released. This is a point that was evoked repeatedly by Mr. Sileghem. Since the separation between Mazda and Ford, Mazda have decided to invest increasing sums in R&D to transform their product offering into a more premium/unique offering.

During the 2008 recession, Mazda had cut down on R&D expenses in a bid to bring down costs given the increasing financial strain they found themselves under. Following the recession, R&D was identified as a strategic axe that Mazda had to put a focus on. When asked about what changes Mr Sileghem would recommend to the executive Mazda board in Japan come the next recession, he mentioned increased R&D and continued new product releases.

“I think in the car industry it still goes a lot with the product. The focus is much more on the product along with the services and loyalty and so on. It all starts with the product. The way Mazda is going is maybe different to other brands in that it is clearly seeking its own direction in design and technology, so R&D. Really going their own way having most probably a unique position in the market in a couple of years’ time because these cars are going to be put out in the next years.”

A number of arguments in favor of increased R&D and continued new product releases can be deduced following the discussion. Firstly, the automobile business in particular puts a very product-orientated. The products come before everything, service included, when it comes to this industry. As such, it is especially important for manufacturers to continue to not lose focus and continue to improve their most important asset, their product.

In addition, there is a future-driven pressure to continue to maintain R&D irrespective of the economic cycle. Car manufacturers invest today in order to generate revenue and potentially profit in the future. If this process is disrupted and firms cut spending on product improvement and product release, it could heed significant and negative future impacts in the form of market power or financial losses. As Mr. Sileghem said, “not cutting investments in R&D is something that will help Mazda in 5 years.”

### 3.2.3.6 Market Signaling

The final hypothesis considered a topic that has very little research behind it, that of market signals. What is theorized in this thesis is that a firm could manipulate the signals that it emits to the market which would then positively impact its market valuation. Thus, even in tough economic climates, a company, through its signals, can increase expectations and potentially positively impact its valuation.

Mr. Sileghem conceded that it is something that Mazda do not do but should do moving forward in light of the new technology that it is developing. He agreed that market signals have a clear added-value and said:

“That is something we need to do when coming to the market with new unique technologies. For example we’re coming to the market with a new petrol engine that no one else on the market has and we are preparing to do a communication about that technology separate from the product launches. We think it’s important in the situation that we are today where people understand that we have a unique technology that nobody else has. Everybody talks about EV’s and hybrids and our new technology may be a third option. It is something that we need to do talking about our technology.”

Moving forward it would appear that Mazda will begin to consider using market signals to their betterment. They are on the verge of producing a new and unique petrol-powered engine and they feel that it will demark them and positively impact the future expectations and potential of the brand. The underlying point raised is that if market signals are to be manipulated, the firm must have something that is in line with Barney’s VRIN model (1991). In other words, the firm must possess something that is valuable, rare, inimitable and non-substitutable.

The example of Tesla was mentioned as a potential indicator of the potential of having a charismatic leader emitting very specific signals to the market.

“Tesla is a very specific case because they were an outsider entering into the industry and they have a different business model in that they live on cash. It is rare to see on the stock market such hypes that are not based on facts and figures but rather on expectations and personalities. I think it should be possible or even necessary during

recessions to put forward your strong points. Tesla has strong points too, they have unique technology, they were the first ones to do that. That's what they put forward to the market."

On the whole, whilst the topic of market signaling is one that is difficult to measure and study appropriately, there is amongst the Mazda Motor group the feeling that, especially during economic downturns, their company needs to begin to strategically emit signals putting forward their soon to be released unique engine. The thought being that it will positively impact market valuation due to increased positivity and expectations for Mazda's future.

### *3.2.4 Mazda Motor: Analysis Concluding Comments*

Mazda have changed their perspectives on many different strategies to follow during recessions as a result of their poor performance during the last one. For example, in 2008, costs were sought out to be cut drastically and immediately, it was a form of excessive and reactionary cost cutting.

Likewise, costs were cut in R&D and new product development. Regardless of whether these two measures were a direct result of the difficulties that Ford inflicted on Mazda, it is undeniable that they have learned from the experience.

The two big changes following 2008 and the subsequent years after centre around the cost efficiency reform, putting them in a position not to excessively cut costs as a pure reaction to the economic climate, as well as the importance of maintaining or even increasing R&D to be able to refine and improve the new products that will continue to actively release.

Mazda have seemingly identified the weaknesses in their prior strategy and have acted accordingly to ensure that come the next crisis, they will be prepared to improve their performance. There is a real belief within Mazda that the changes to their approach and strategies will put them in a vastly improved position next time around, both during and post-recession.

A set of the hypotheses elaborated within the scope of this thesis were confirmed by Mr. Sileghem suggesting that, based on their prior poor performance, Mazda Motor have also

identified some of the hypotheses as the way to ensure that they maximize their performance during the next crash. Table 2 summarizes the interview relative to the hypotheses.

Table 2: Rejection or confirmation of hypotheses destined to ensure maximization of recessionary performance.

| Hypotheses                                   | Mazda Motor | Comments                                                                                                                                             |
|----------------------------------------------|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------|
| H1: Diversifying during periods of recession | ✓           | If paired with a risk mitigating tool, such as alliances, diversification should occur.                                                              |
| H2: Increasing marketing expenditure         | ×           | It is an easy cost to cut and has no negative impact given demand is low and rivals are also cutting it.                                             |
| H3a: Utilizing strategic alliances           | ✓           | Aids performance greatly provided it is a non-equity alliance and the partner carefully chosen displays good cultural and strategic fit.             |
| H3b: Utilizing M&A's                         | ×           | Too risky. It results in a loss of identity, control and independence.                                                                               |
| H4: Cost efficiency over cost cutting        | ✓           | Very important in ensuring that operations are not impacted and performance is maximized.                                                            |
| H5: Increased R&D and new product releases   | ✓           | he automobile market is extremely product-driven. Maintaining R&D and new product releases are therefore vital irrespective of the economic climate. |
| H6: Market Signaling                         | ✓           | Sending signals of a unique advantage the firm possesses is important in influencing market valuation.                                               |

### 3.3 Kia Motors

The choice of Kia Motors as a subject of analysis is motivated by one big reason: Kia Motors performed well financially both during and post-2008 recession. Previously in this thesis the idea of recessions being seen as opportunities rather than threats was mentioned. From the outside looking in, Kia Motors seemingly share this view. They reported an increase in key figures (sales volume, profit, etc.) during the recession only to then on top of that thrive in the post-recessionary recovery phase.

Understanding the reasons for this is vital. What Kia have done is achieve the goal that the different hypotheses should theoretically lead to and as such should they be validated during the interview, it would be a big step in proving their pertinence and effectiveness in practice. Eun Seog Jang, president of Kia Motors Belgium and Luxembourg, is the individual that reports back to South Korea and that helps condition Kia Motors' European strategy. His insight on what led to a successful exploitation of the 2008 recession is therefore important for this analysis.

### 3.3.1 Kia Motors: Company Outline

Kia Motors is a company founded in 1944 and South Korea's second biggest car manufacturer, producing over 3 million vehicles a year being sold in 150 countries (Bloomberg, 2018). The company's mantra is "building a new future and realizing humanity's dreams by thinking creatively and tackling challenges head on" (Kia Motors, 2008).

### 3.3.2 Kia Motors: Impact on Performance of the 2008 Recession

As with the analysis of Mazda Motor, the performance of Kia Motors both during the 2008 recession as well as post-recession will be considered through the evolution of Kia's share price and their financial statements.

Table 3 depicts the evolution in Kia's share price. The company's share price in 2008 paints an ominous picture on their performance during the recession. It represented the lowest ever recorded stock price of the company which stood at just over three and a half euros. It also represented the biggest yearly percentage drop in the company's history. Their stock price dropped by 51%. That being said, it is perhaps the large 235% increase in their share price during the subsequent year that is more telling.

Table 3: Closing share price of Kia Motors on the last working day of the year between 1999 and 2017.

| Year | Closing Share Price (in EUR) | Variation     |
|------|------------------------------|---------------|
| 1999 | 6,175                        | -             |
| 2000 | 6,102                        | -1,2%         |
| 2001 | 7,578                        | 24,2%         |
| 2002 | 7,035                        | -7,2%         |
| 2003 | 7,262                        | 3,2%          |
| 2004 | 7,674                        | 5,7%          |
| 2005 | 22,213                       | 189,5%        |
| 2006 | 10,989                       | -50,5%        |
| 2007 | 7,338                        | -33,2%        |
| 2008 | <b>3,582</b>                 | <b>-51,2%</b> |
| 2009 | 12,001                       | 235,0%        |
| 2010 | 33,763                       | 181,3%        |
| 2011 | 44,566                       | 32,0%         |
| 2012 | 40,039                       | -10,2%        |
| 2013 | 38,533                       | -3,8%         |

|      |        |        |
|------|--------|--------|
| 2014 | 39,235 | 1,8%   |
| 2015 | 40,918 | 4,3%   |
| 2016 | 31,058 | -24,1% |
| 2017 | 26,162 | -15,8% |

Note: Closing share price. Adapted from Bloomberg (2018). Copyright by Bloomberg in 2018.

Kia shares went from being worth three and a half euros to being worth twelve euros. What makes this fact interesting is that Kia were one of the only firms to bounce back to that extent in 2009, the majority of their competitors' share prices increased slightly but did not come close to matching their 2007 level.

The South Korean firm were seemingly in a great position to maintain (if not increase) their market share and performance immediately following the recession. This points to the company making the right decisions and having the right strategies in place allowing them to emerge strongly after the fact. Figure 5 provides a graphical representation of this and we can see that Kia Motors not only match their 2007 number, but go well above it in 2009. This increase in share price persists through 2010 and 2011. It is clear to see that Kia had a consistently strong performance immediately following the latest economic downturn.

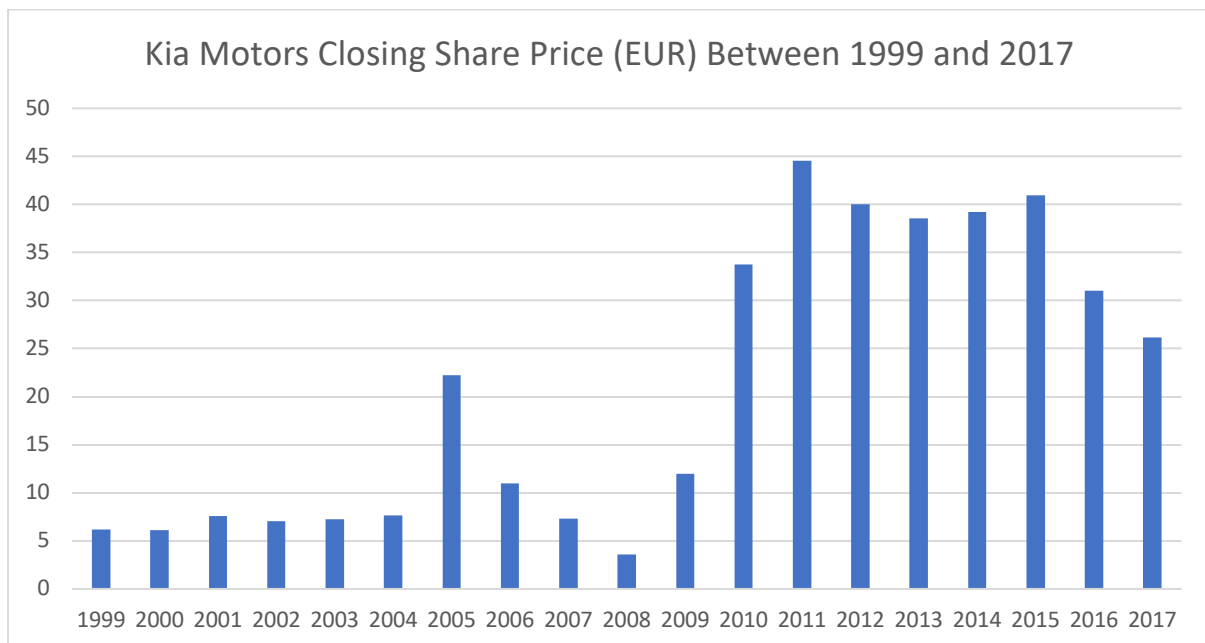


Figure 5: A graphical illustration of the evolution of Mazda Motor's share price between 1999 and 2017. Data from the Bloomberg database (2018).

A closer look will now be taken to see if the company's evolution in share price is congruent with its reported financial results. Firstly, the phrase mentioned on one of the very first pages

of the financial statements of 2008 is representative in itself of Kia's approach to the recession: "2008 was an easy year for no one, and Kia Motors faced its share of difficulties. Even so, we made substantial progress in positioning the company to defend its market share and achieve growth beyond expectations."

Whilst the sales volume in 2008 was inferior to that of 2007, 1.056.400 and 1.114.451 units respectively, the company's revenue, gross profit, operating profit and net income all increased substantially in 2008. Their financial and strategic performance increased during the year in which the recession hit hardest. These numbers do not help in explaining the reason as to why the market valued the company so lowly in 2008 but may help in explaining how market valuation increased so starkly in 2009.

Upon considering the financial statements for the year end 2009, the market valuation is entirely justified. Net income continued to grow and revenue increased by a further 12%. Likewise, global retail sales increased as well.

The 2009 financial statements begin with a statement given by the Kia Motors chairman, Mong-Koo Chung, stating: "Despite the severe challenges faced by the world's automakers in the wake of the global financial crisis, we at Kia Motors have been able to rally together and seize the opportunities that others missed."

Overall, it is clear that Kia used the recession to further their market positioning, to capitalize on their rivals' difficulties and to establish themselves on new markets as a serious player.

### *3.3.3 Kia Motors: Results*

The interview was carried out with the president of Kia Motors BELUX, Eun Seog Jang. Mr Jang has been at Kia Motors since December 1991 which makes his input useful seeing as he was at the company during its bankruptcy and subsequent acquisition by the Hyundai Group in 1999. He has therefore been through some difficult times with the company and has had to navigate Kia through multiple periods of recession.

### 3.3.3.1 *Diversification Opportunities*

During the interview, the notion of a recession being more of an opportunity than a risk was evoked on numerous occasions by Mr. Jang.

“Even if we’re having difficulty, the risk can be translated to opportunity. Risk means opportunity. For example, top management decided to invest in a new plant in India. We haven’t started to sell in India yet and so maybe next year we could start selling cars produced in India there. We see not just the risk, we need to translate it to opportunity.”

As mentioned repeatedly in the theoretical part of this thesis, periods of economic downturn offer up investment opportunities at reduced prices. This is due to the lower demand level and general desperation that recessions typically heed.

At this particularly moment in time, despite the tough economic climate in countries like India and China, Kia Motors have picked this period to make substantial investments in a new plant in India with the objective of beginning to sell their cars in the Indian market. The same thing was done during the financial crisis of 2008 where Kia had strategically opened up a plan in Slovakia to better penetrate the European market where their presence was less than stellar.

Recessions provide companies with an opportunity to invest and be aggressive at times where competitors adopt more conservative strategies. Kia Motors have also used prior recessions to diversify their product offering. An example brought up by Mr. Jang was their diversification into the SUV segment of the market. Prior to 2007, Kia’s focus was on passenger vehicles. However, Kia Motors then used the recession to introduce their new diversified product line.

“We had already seen the market trend at the time. Passenger cars decreased and SUV’s went up which is why we focused on the SUV models by introducing the Sportage and the Sorento. That increased our sales very highly.”

Very much on the same trend, Mr. Jang stated that whilst the economic climate in Europe is more or less stable for the company, a recession is currently ongoing in China. This has not

stopped the company from diversifying further into the electric car segment, with new models being released in China come year-end.

“Kia is one of the leading companies in electric cars. At the end of this year we’ll have 2 new electric vehicles. The Nero EV is the first electric vehicle in SUV. This type of investment we are doing. We needed to show our ambition and make a difference.”

Overall, it is clear by considering Kia Motors’ actions during different recessions that their belief is that the risks can be translated into opportunities and can be done so by capitalizing on their rivals’ lack of investments allowing them to aggressively invest in the diversification of their products and gain market share on the new market segments in which they enter.

In 2008 they did so by entering into the SUV market and despite the current recession in China, they have used this opportunity to enter and take one of the leading positions in the electric car segment in China and globally.

### *3.3.3.2 Increased Marketing Expenditure*

In the elaboration of the hypothesis regarding increased marketing expenditure in periods of downturn, a big argument in favour was the fact that whilst rivals are cutting their marketing, a firm that does the opposite will allow its brand to gain in importance and exposure in the eyes of the consumers.

This ultimately will aid them to put forth their products and capture the segment of the market that competitors lost. This is theoretically not only helpful in capturing demand during the recession, but also post-recession because demand eventually picks up and the company, through its advertising, is at the forefront of the consumers’ minds. This is seemingly a perspective that Kia Motors are a strong advocate of with the president of their brand in Belgium and Luxembourg repeating on several occasions the vital role that aggressive marketing had during the 2008 recession:

“There was a chance to improve our brand image and so we invested heavily in our brand image, aggressive marketing. We invested in our brand image at the time heavily. That was our big milestone.”

“We would not say that we are the leading company in the automotive industry in Europe. We have around 4% market share European-wide. The reason why I told you that that was an opportunity for Kia is that we invested in a new European plant in Slovakia. We had invested in it in 2006 and 2007 and in Europe we started to produce our European design.”

The retraction in marketing costs at their European competitors in 2007 and 2008 opened the door for Kia to begin to market itself as a brand that is congruent with the European people (through European-made cars in Slovakia). The chance to highlight the quality of their products through a seven year warranty system was put in place and marketed heavily.

Therefore, a big contributing factor in Kia’s good recessionary and excellent post-recessionary performance is, according to Mr. Jang, the aggressive marketing that they adopted in a bid to improve their branding thus positioning themselves as a strong player on the automotive market.

#### *3.3.3.3.1 The Importance of Strategic Alliances*

The topic of strategic alliances was one that was not heavily insisted upon by Mr. Jang. It is seemingly not the type of corporate development favored by the Kia Motors hierarchy. Not to say that the Kia brass are against all forms of corporate development, Mr. Jang was very conscious of the big advantages that M&A’s can bring to firms in periods of recession.

Upon being asked whether the Kia group would be open to entering into an alliance with another brand, Mr. Jang conclusively insinuated that there are no plans whatsoever in the works for Kia to cooperate with other brands outside of their partnership with Hyundai.

“I don’t think so. Today I don’t think Hyundai and Kia Motors group have this kind of plan.”

There are a number of factors mentioned throughout the interview that point to why strategic alliances are not on the horizon for Kia. Firstly, there is the difficulty in finding partners of organizational and cultural fit/compatibility. Mr. Jang insisted on the troubles of adapting and

working as coherent partners that Kia and Hyundai initially faced following the takeover of Kia by Hyundai following their bankruptcy.

“At that time I didn’t expect the chemistry to be good between the two companies. Yesterday we were competitors, very strong competitors in Korea domestically and in other foreign markets. We have very different company cultures.”

According to Mr. Jang, it took around 10 years for the companies to begin to work cohesively. Furthermore, working with competitors, whether they have similar organizational cultures or not, is also a complex task. The risk of opportunism, the difference in ideologies and the natural tension between the different pairs of employees leads to a lack of desired cohesion.

Lastly, the complexity in maintaining unique identities is present in the case of a grand majority of corporate development options. Mr. Jang talked extensively about the trials and turbulences of maintaining Hyundai and Kia separate in terms of their respective and unique identities.

“From the beginning, the biggest challenge was the unique identity we needed to keep because Hyundai and Kia to make successful synergies needed to keep separate identities. One plus one cannot even make two, but we wanted to make it three! Still, we are struggling to have a separate and unique identity.”

In order to overcome this difficulty, Kia Motors hired renowned car designer Peter Schreyer. This entailed a large investment in redesigning their product line but they felt that it was a necessity in order to differentiate their brand from Hyundai’s. In the case of particularly non-equity strategic alliances, firms may be unwilling to make such large and necessary transaction-specific investments due to the risk that the partnership ultimately fails or that the partner does not reciprocate.

Ultimately, we see similarities emerge between Kia’s and Mazda’s perception of strategic alliances. In both cases, the need to find partners of good organizational and cultural fit as well as the dangers in losing the unique identity that characterizes the different brands were points raised.

### 3.3.3.3.2 *The Benefits of Mergers and Acquisitions*

An argument mentioned as to why M&A's may be the way forward in periods of economic downturn, is the fact that rivals can be acquired at reduced prices due to their different struggles. With recessions come the ability to conduct good business.

As eluded to previously, the favored form of corporate development at Kia Motors is that of M&A's. In 1997, Kia Motors announced bankruptcy only to be acquired by the Hyundai group, formerly their biggest competitors domestically. Not only did this allow Hyundai to gain market share, but they were able to benefit from the economic hardships to acquire a rival at a heavily reduced rate.

Another point brought up was the utility of acquiring rivals on future recessionary performance. Whilst at the time the acquisition was not overly helpful in ensuring strong performance for Hyundai or Kia during the 2001 recession, with Mr. Jang stating that it took 10 years following the acquisition for the chemistry to start to heed the desired advantages, the acquisition did ultimately pay off for both firms during the 2008 recession, with both Kia and Hyundai reporting good performances.

Despite the cultural, organizational and identity issues, according to Mr. Jang, there are a number of very big advantages brought by M&A's for firms looking to maximize their performances, advantages that Kia Motors benefitted of during the recession of 2008:

“The first big advantage is volume. In most cases volume can lead to strength and more profitability. Secondly, I would say we could share technical knowledge, technology and experience. We shared R&D and still do so.”

The first point therefore evoked by Mr. Jang would be that of the large cost-reducing synergies that M&A's can bring. Joint production commenced between Kia and Hyundai which resulted in large volumes allowing the group to produce at reduced costs. The president of Kia BELUX namely identified R&D costs as the major area that benefitted from the acquisition through added cost efficiency and thus the maintenance of costs at the lowest possible level.

In addition, M&A's allow for a share of technical knowledge and expertise. Hyundai and Kia came together and shared their technology and knowledge in order to improve different areas of their respective companies.

#### *3.3.3.4 Cost Efficiency over Reactionary Cost Cutting*

As far as cost efficiency is concerned, Mr. Jang believes that Kia Motors have achieved it, not only out of personal preference but also out of necessity.

“I would say that as we already have good cost control because of the R&D synergies. We started to have the ten years guaranty. It made us very hard on ourselves in terms of quality and without controlling all the costs, the quality improvements we could not manage to offer as long as ten years.”

Kia Motors introduced the principle of seven years of warranty in Europe and ten years in the United States of America in order to offer a certain assurance of their quality to the consumers on the automobile market. Introducing a warranty policy as long as the one in place entails a need for excellent cost control and efficiency. Mr. Jang attributed the partnership with Hyundai as a big factor in the natural reduction of costs, stating that the synergies achieved in R&D have been vital.

However, whilst Kia focus on streamlining their costs and achieving efficiency in production, Mr. Jang believes that reactionary cost-cutting is necessary.

“The most important thing is a focused selection. We selected to invest in our quality, in our brand image and then the other parts like incentive policies and this type of costs had to be drastically decreased.”

A selection of investments is maintained but costs in what the firm perceives as less important initiatives are cut down. This being said, it is hard to establish causality between Kia Motor's cost cutting and the 2008 recession. According to their financial statements, the company had been aggressively cutting costs since 2003 with the goal of rendering their operations more efficient.

Furthermore, based on the financial statements, we can see that in 2008 Kia Motors achieved a decrease in their costs of goods sold ratio of 5,7% year-on-year. Kia Motors (2009) attributed this decrease to “a favorable foreign exchange environment, improvements to Kia’s cost structure, technical cost innovation (TCI) and cost-sharing synergies derived from Kia’s relationship with Hyundai Motor.”

All in all, there is a clear focus on cost efficiency at Kia Motors but Mr. Jang’s comments also state that additional costs must be cut in periods of economic hardship.

#### *3.3.3.5 Increasing R&D and New Product Release*

The potential benefits of increasing R&D and releasing new products despite a recession have already been detailed in this thesis. Kia Motors appear to be an advocate for these benefits through their response to both R&D and new product release.

As discussed previously, Kia Motors entered the SUV market. They seized the opportunities stemming from the economic hardships at the time to diversify their product offering. With their diversification came the release of a completely new product-line.

Three new products were released that year globally and whilst the traditional impact of recessions is to significantly decrease sales, Kia managed to ensure both strong market entry and strong sales for these new models. Beyond helping them during the time of the crisis itself, it also helped them after the fact as consumer pessimism began to decrease and the economy began to recover.

Furthermore, according to the company’s financial statements (for year-end 2008), the share of R&D expenses in 2008 corresponded to 5,4% of the total revenue against the reported 4,9% in 2007. The expenses in R&D in 2008 increased by 103 billion South Korean Won compared to 2007. With the introduction of the seven and ten year warranty, it was therefore very important for Kia Motors to maintain the quality which is reflected in the increase in their R&D costs.

As announced in the company's 2008 financial statements, "Kia Motors is building an unassailable lead in R&D, investing in innovation and shortening the product development cycle to be the first to bring to market the cars that customers want."

Overall, it is clear through the interview with Mr. Jang as well as the look into the company's books that Kia Motors believe in not only the maintenance of R&D, but also the increase of it irrespective of the economic period. Likewise, they believe that releasing new and improved products will increase sales and stimulate demand even in the toughest of climates.

### *3.3.3.6 Market Signaling*

Market signaling is a tool that Kia Motors appeared to be utilizing during the recession of 2008. As detailed before, Mr. Jang insisted on the importance of improving the firm's brand image, something that would significantly improve sales. Kia felt as if they had quality vehicles and, following their large investments in design, sleek looking cars.

They therefore introduced the seven year warranty in Europe as a signal of the quality of their vehicles.

"At that time we launched the 7 year warranty which means that we know that our strength is the quality but nobody knew it at the time. That's why we highlighted our strengths in quality so we decided the 7 year warranty concept and advertised it. From the beginning, you cannot expect any good result, immediately. We have struggled to get a good effect. We finally got a successful result but it was tough. However, I think it was very effective to let European people know Kia's strength, Kia's quality, and that marks our improvement, our growth."

The notion of clearly highlighting a company's strength on the market is one that was reflected by Matthias Sileghem who went on to say that this form of market signaling was on the cards for Mazda as well with the imminent release of what he expects to be a revolutionary new engine.

Likewise in Kia's case, they knew they had a clear strength and they knew that they had to let the market know that they were a brand making big strides. Mr. Jang felt that it took a while

but that ultimately their signals of quality emitted to the market ended up having a successful result on their stock valuation. The company's seven year warranty was the form of market signaling that Kia opted for. It was a way for them to signal the high quality of their products and services through the offering of the longest warranty in the automobile industry's history.

What has emerged from the interviews with both the Mazda Motor director and Kia president (in the BELUX), is that they expect that market signals do work. But in order for a firm to successfully emit them they must possess something unique, something that offers them a competitive advantage over their rivals.

### *3.3.4 Kia Motors: Analysis Concluding Comments*

Kia Motors notoriously performed well during the 2008 recession, viewing the risky economic landscape as more of an opportunity. They capitalized on their rivals' retraction in marketing and R&D in order to increase their exposure and brand image whilst also pre-empting their rivals in terms of bringing to the market the products that consumers were looking for.

Beyond aggressive marketing, the recession provided to them a good opportunity to diversify their product offering (through the production of SUV's) and to enter new markets strongly through the release of a new diversified range of products.

Whilst there was an understandable drop in demand, there was also a drop in the supply of new products which provided Kia Motors an opportunity to capture a larger share of the existing demand than they would have had previously had their rivals also been aggressively launching new products as well. They therefore increased their R&D (to ensure that the quality of their offering was as high as possible) and ensured the release of their new models.

Beyond this, they continued to reap the rewards of their partnership with Hyundai Motor by achieving cost-synergies and fine-tuning their production through the joint sharing of expertise and knowledge.

Lastly, they sent a very strong signal to the market of the quality of their products by introducing the seven year warranty in Europe. It is a warranty that to this very day is unmatched by other automobile manufacturers in Europe. This market signal served as a means

to improve their positioning on the market and assure not only consumers, but also investors and other stakeholders, of the quality of their offering. Table 4 summarizes all of the insight obtained throughout the analysis on Kia Motors relative to the literature-induced hypotheses:

Table 4: Rejection or confirmation of hypotheses destined to ensure maximization of recessionary performance.

| Hypotheses                                   | Kia Motors | Comments                                                                                                                                                                                                                                                                                          |
|----------------------------------------------|------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| H1: Diversifying during periods of recession | ✓          | Important to capitalize on rivals' conservative strategies by seizing good investment opportunities and entering into new markets strongly.                                                                                                                                                       |
| H2: Increasing marketing expenditure         | ✓          | Allows for the furthering of brand image and market positioning.                                                                                                                                                                                                                                  |
| H3a: Utilizing strategic alliances           | ×          | Partners that are organizationally and culturally compatible are hard to come by. Also difficult to maintain unique identities.                                                                                                                                                                   |
| H3b: Utilizing M&A's                         | ✓          | Results in added volume which translates into synergies. Allows for improvements through knowledge and technology sharing.                                                                                                                                                                        |
| H4: Cost efficiency over cost cutting        | ×          | Important to remain cost efficient but aggressive cost cuts are inevitable during recessions.                                                                                                                                                                                                     |
| H5: Increased R&D and new product releases   | ✓          | New product releases allow for demand stimulation and increased sales (before and after the fact). Increasing R&D allows the brand to maintain product quality and improve the product development cycle allowing the firm to be the first on the market to release products that consumers want. |
| H6: Market Signaling                         | ✓          | Sending signals of a unique advantage the firm possesses is important in influencing market valuation.                                                                                                                                                                                            |

### 3.4 Suzuki Motor

The last case study is that of Suzuki Motor Corporation. The interesting aspect to consider in this case is that Suzuki survived the initial shock well in 2008 but then their operations were hit hard in the subsequent years. The reasons behind their successful initial shock survival as well as the reasons behind their slow recovery will form an important part of the hypothesis testing.

In this analysis, the company's activity in the car industry is what will be considered, despite them also being one of the leading brands on the motorcycle industry.

### 3.4.1 Suzuki Motor: Company Outline

Suzuki Motor is one of the leading Japanese car makers in the world (Bloomberg, 2018). The company was founded in 1920 and has over 20 plants worldwide while its network is present in 193 countries and areas (Suzuki Motor Corporation, 2009).

### 3.4.2 Suzuki Motor: Impact on Performance of the 2008 Recession

In order to gauge the impact of the 2008 recession, the evolution in Suzuki Motor shares on the stock market will be considered. Table 5 depicts this evolution:

Table 5: Closing share price of Suzuki Motor on the last working day of the year between 1999 and 2017.

| Year | Closing Share Price | Variation     |
|------|---------------------|---------------|
| 1999 | 14,488              | -             |
| 2000 | 11,332              | -21,8%        |
| 2001 | 12,365              | 9,1%          |
| 2002 | 10,393              | -15,9%        |
| 2003 | 11,819              | 13,7%         |
| 2004 | 13,321              | 12,7%         |
| 2005 | 15,653              | 17,5%         |
| 2006 | 21,394              | 36,7%         |
| 2007 | 20,307              | -5,1%         |
| 2008 | <b>9,632</b>        | <b>-52,6%</b> |
| 2009 | 17,212              | 78,7%         |
| 2010 | 18,448              | 7,2%          |
| 2011 | 15,955              | -13,5%        |
| 2012 | 19,699              | 23,5%         |
| 2013 | 19,502              | -1,0%         |
| 2014 | 25,064              | 28,5%         |
| 2015 | 28,139              | 12,3%         |
| 2016 | 33,442              | 18,8%         |
| 2017 | 48,277              | 44,4%         |

Note: Closing share price. Adapted from Bloomberg (2018). Copyright by Bloomberg in 2018.

Much like the evolution of the Kia Motors shares, the same trend can be observed when considering the Suzuki Motor shares (in 2008). The all-time recorded low in their stock price came in 2008 and stood at 9,6 euros. This therefore also represented the all-time highest percentage yearly drop in the company's history, a drop of over half of the 2007 value.

Immediately after the financial crisis, Suzuki were able to increase their share price by 79% but only surpassed the share price of 2007 (pre-recession) in 2014.

All this being said, it is undeniable that whilst the low came in 2008, the all-time high subsequently followed. The firms' share price has been significantly increasing for the past 4 years which demonstrates the ability of the company to bounce back and ensure long-term prosperity despite the tough economic climate. Figure 6 is a graphical representation of the aforementioned evolution.

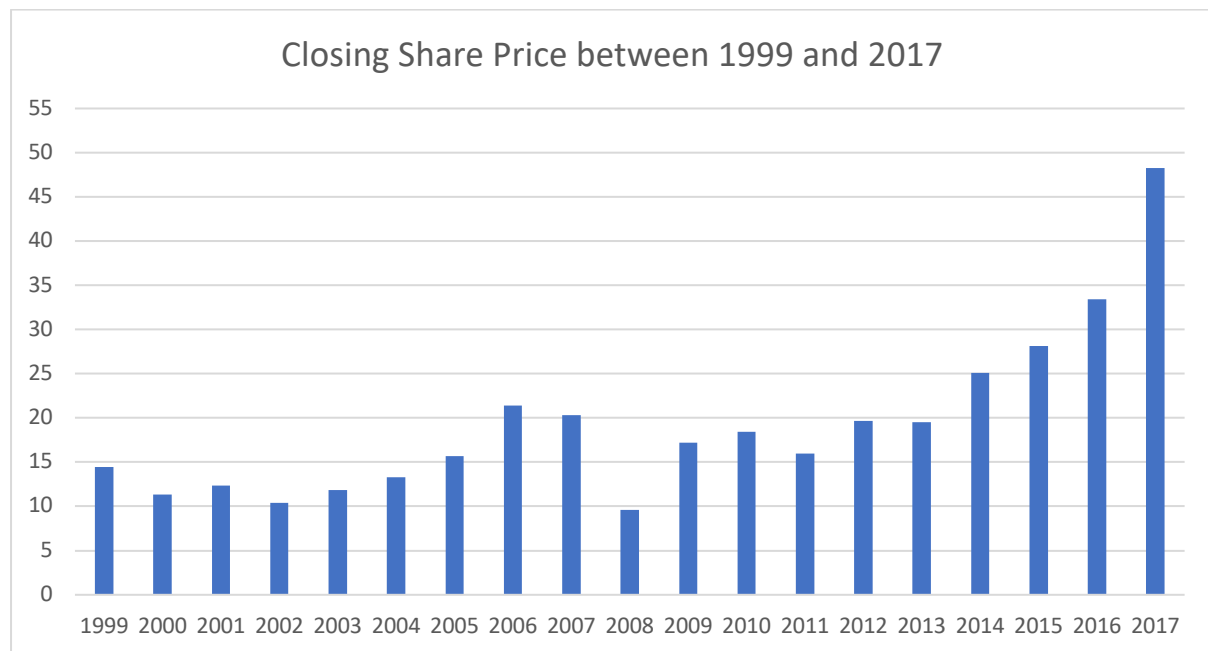


Figure 5: A graphical illustration of the evolution of Mazda Motor's share price between 1999 and 2017. Data from the Bloomberg database (2018).

We can clearly see that Suzuki more or less maintained their share price at a steady level post-recession until 2014 where they experienced a large increase.

There are a number of interesting takeaways emerging from the firm's financial statements. Firstly, and contrary to what the evolution of the share price insinuates, Suzuki reported very strong numbers in the financial year of 2008. Compared to 2007, consolidated net sales of automobiles increased by 11% with net income increasing by 7%.

It is only by considering the 2009 financial statements that the true impact of the recession on Suzuki can be gauged. Net sales dropped by 14% (year on year) with net income dropping by an extraordinary 65% as well. The financial statements of 2010 outline a bleak situation too

with net sales further dropping but net income boasting a marginal improvement compared to 2009.

The differences in conclusions between the share price analysis and financial statements analysis is a good illustration as to why the dual approach to considering the impacts of the recession was taken. On the basis of the above analysis, we can see that share price may not always represent the financial reality of a firm.

Overall, it would appear that Suzuki survived the initial shock from the crisis well but suffered over the subsequent years. Whilst it took them seven years to recover to the level they were at prior to the crisis, they have been prospering since their recovery. It is necessary to understand the reasons as to why they survived the initial shock well but suffered over a long period of time after the fact and the interview will therefore prove to be useful in confirming or refuting the different hypotheses.

### *3.4.3 Suzuki Motor: Results*

The interview took place with the chairman of Alcopa, Axel Moorkens. Alcopa are the Suzuki importers in Belgium and Luxembourg. They have shared a close bond to the whole of the Suzuki family since they struck up their partnership 61 years ago. The Moorkens family have always owned Alcopa and the chance to discuss Suzuki's recessionary strategies with the chairman of Alcopa, a man who is in close contact with the Suzuki family itself, is very important in gaining insight into what the company are doing and what they should be doing to improve recessionary performance.

#### *3.4.3.1 Diversification Opportunities*

The various advantages brought forward through the prior literature of diversifying during periods of recession have been detailed on numerous occasions during this thesis. As such, they will not be rehashed. Once the topic arose, it solicited a very simple and plain response from Mr. Moorkens. When asked whether Suzuki venture into the diversification of its product or service offering during downturns, he did not mince his words.

“No I don't believe so, they are not opportunists. It is a wasted opportunity in my eyes.”

A theme that came up during the interview was that of the various ideological and cultural differences between people from different places in the world. For him, it was clear that they should be exploiting recessions to allow for a better post-recessionary recovery, but he stated that the Suzuki family have not only missed opportunities in the past, but are somewhat stuck in their ways.

“This is for me the second problem at Suzuki, it is an advantage and an inconvenience, the fact that they are a family company. When Suzuki Sr. goes somewhere, everyone else disappears.”

The decision-making process is very much centralized which means that there are things that the company should potentially be doing, like diversifying, that they are not.

#### *3.4.3.2 Increased Marketing Expenditure*

A topic that was constantly evoked throughout the hour and a half long talk was that of brand image and marketing, specifically their importance.

“For me the brand is incredibly important for all products. People today are inundated with information and therefore put importance on logos. Brandless products are complicated, they don’t work today. A purchase of a car is the second biggest investment for people, after the purchase of a house, and so brand is very important. Within brand there is image, the warranty, the network etc. For everyone it is important and there are brands that put a higher importance on brand image than Suzuki. Suzuki does not focus on their image. They have been running the same ads for 8 years on the same model. Image is important. For a person that buys a Suzuki, it is a big expense and they therefore need to know they’re buying quality and so if you reduce the brand image linked to quality...Suzuki has 10 years of delay. A lot of people today buy marketing.”

The point regarding the amount of information that consumers in our day and age are exposed to is a pertinent one. There are a large number of touchpoints for firms to reach consumers nowadays, through various avenues on the internet as well as the more traditional forms like

ads run on television, billboards etc. The importance for a company of ensuring that their brand, their logo, is imprinted in the consumers' minds is endless. An emerging argument in favor of increased marketing expenditure following the literature review is that it is important for post-recessionary recovery for a firm to ensure that, through constant exposure of their brand to potential consumers, consumers think of their brand.

As a result, whilst demand is typically low during recessions, it is important for the company that its brand remains at the forefront of the consumers' minds seeing as when the economy and demand picks up, a lot of consumers will flock to purchase what they have constantly been exposed to during the recession.

Mr. Moorkens also talked about the importance, through marketing, of maintaining Suzuki's image as being a company that offers quality products. The people who buy Suzuki cars often do not do so for the design or the look, they do so because they are looking for a product that will last a long time and that is of high quality. If Suzuki Motor does not market themselves as having quality products, consumers will not purchase their products at the same rate, particularly during economic downturn's when they are pickier regarding what they spend money on.

The overall takeaway related to marketing expenditure during recessions is that it is a point on which they have to improve. Mr. Moorkens insisted on the importance of marketing and building brand image.

#### *3.4.3.3.1 The Importance of Strategic Alliances*

Upon talking to Mr. Moorkens, commonalities between the different case studies considering in this dissertation regarding corporate development and particularly strategic alliances emerged. For the chairman of Alcoba, it is important to be wary of a potential lack of cultural fit. He cited the example of Suzuki Motor's alliance with General Motors and more particularly the ideologies of the people in charge of the respective companies:

“Even in the Renault-Nissan alliance, when Carlos Ghosn first entered, he was told exactly what he was to do. For them, he was an external person. In Japan, there is no boss. If we ask the question of who the owner of Suzuki is to a person in the streets,

they wouldn't know how to respond. This is contrary to the American mentality where the bosses are big public figures.”

It is therefore important to be conscious of the cultural differences present. Likewise, Mr. Moorkens detailed the necessity for the partners to maintain unique identities.

“If we consider the Renault-Nissan alliance, this is where Mr. Ghosn did really well, he knew how to keep the identity of the two brands. Nissan were worth more than Renault. The real question is whether or not Nissan should purchase Renault. They could have decided to put the two brands under one logo but they did not do so. Mr. Ghosn was the right person to head the alliance because he let everyone work together and at his essence, he is a commercial man. He is a person who knows how to put people together.”

Strategic alliances are a pertinent option for Mr. Moorkens as a means to improve performance during recessions. He talked about the massive potential for Suzuki's prosperity irrespective of the economic period if a company that is strong commercially, the example evoked was Tesla, came in and requested an alliance. The reason for this is the principle of complementarity.

“When we consider Suzuki, what can Suzuki do? They know how to produce cars. If tomorrow the people from Tesla came to Suzuki and offered to them their technology in exchange for a guarantee of on-time production of good quality cars, that would be a perfect match.”

On the whole, the information deduced was that strategic alliances remain an excellent option to improve performance both during and post-recessions provided that the identity of the partners' brands is maintained, that there is a cultural fit, that the partners are complementary and that the right person is given the task of ensuring that the alliance proceeds smoothly.

#### *3.4.3.3.2 The Benefits of Mergers and Acquisitions*

The majority of the conversation related to external corporate development was centered around strategic alliances. In hindsight this was a logical outcome given the fact that Suzuki

Motor partake primarily in strategic alliances, whether that be with General Motors, Toyota Motor or others.

Beyond a comment made by Mr. Moorkens regarding the Renault-Nissan alliance, where he questioned why Nissan had not outright bought Renault, the topic did not arise further. As such, there was not sufficient information to confirm the prior literature regarding the various advantages that could be brought to firms during recessions through M&A's.

#### *3.4.3.4 Cost Efficiency over Reactionary Cost Cutting*

Whilst considering Suzuki Motor's books for the financial years between 2007 and 2010, a striking fact emerged: the firm had not extensively cut costs in response to the recession. Upon raising the subject with Mr. Moorkens, he repeated at several instances that Suzuki are to this day one of the only companies that are so cost-efficient, particularly in production, that they make profits on the sales of small vehicles. A fact that is not applicable to very many automobile manufacturers.

"It is one of the only manufacturers that makes a profit on small cars. With Suzuki, they simply know how to make money off the production of small vehicles."

Mr. Moorkens recalled a recent experience he had had with Mr. Suzuki during a visit to their plant in Hungary that highlighted the eternal search for cost efficiency by the owner of the company.

"I was in Hungary with Mr. Suzuki and the first thing he did when he walked into their plant was to turn off one light for every two lights present. He is a man who is eternally seeking cost economies. When we see their factories in Japan, they are not big new plants. The man is constantly asking himself, "how can I produce at reduced cost." For me, it is no coincidence that VW tried to take a part of Suzuki. It wasn't for the brand, it was in order to learn how they produce and profit off small cars, manufacturers are always wondering how to do so."

It is apparent that Suzuki is constantly trying to reduce their costs. One would assume that this is precisely the reason why there were no substantial cost cuts during and immediately

following the 2008 recession. Suzuki are continuously achieving lean production and for them it is less about cutting costs drastically when hard economic times fall and more about ensuring that costs are maintained as efficiently as possible year round, irrespective of the economic cycle in which they find themselves.

A number of people may not necessarily understand the difference between reactionary cost cutting and cost efficiency and Suzuki Motor provides a good example that depicts the difference between the two terms. Suzuki's know-how in terms of the production of vehicles allows them to operate with elite cost efficiency and it puts the company in a situation where costs do not have to be cut drastically since they are maintained at a good level at all times.

#### *3.4.3.5 Increasing R&D and New Product Release*

During the interview it became apparent that R&D and new product releases were one of Suzuki's biggest weak points, especially during periods of recession.

“Suzuki is a very slow company. A company that has missed things. If you consider the motorcycles, a few years ago Suzuki was the leader on the market but they missed a turn and Honda overtook them. For me in everything that is R&D, Suzuki have been too weak.”

During the time of the 2008 recession, Suzuki was one of, if not the leader on the motorcycle industry. In the years following the recession they lost their position as market leader and Honda have now passed them at the summit. Mr. Moorkens brought to light two big arguments as to why R&D should be increased during recessions. Firstly, it is important for market position to remain at a level where the product offering is of top quality and that the technology involved in the product is greater than what rivals can offer.

Secondly, ensuring that the firm emerges from the recession in a prime position to recover is hindered if during the recession itself the company missed an important turn. Reducing R&D allows competitors that have not done so to close the gap before and after the fact. This is seemingly what happened with Suzuki in their motorbike segment with brands like Honda and BMW growing in that market.

As it pertains to new product releases, it would appear that Suzuki struggles with that irrespective of the economic period. Mr. Moorkens believes that Suzuki can improve their overall performance by working towards new product releases. He gave an example of two Suzuki models, the “Swift” and the “Jimny”, as being prime illustrations of Suzuki’s inability to change their product offering and offer to their existing and new potential customers different, more elevated new products.

“When you consider the new Swift, you can play a game to see if you can notice 10 changes (compared to the old model). If we take the Jimny for instance, the model is 26 years old.”

Despite the fact that Jimny sales appear to be increasing, it still proves that Suzuki struggle to change and release new products that are of improved design and technology.

The companies approach to R&D as well as their lack of interesting new product releases in periods of downturn may provide an explanation for the difficulty in their post-recessionary recovery.

#### *3.4.3.6 Market Signaling*

The last topic covered was that of market signaling. Mr. Moorkens had a lot to say about this and Tesla was brought up once again. Tesla’s share price valuation does not match its book value but the company, notably through its CEO Elon Musk, finds a way to always be in the news and the various signals it emits to the market influence the positivity stemming from investors of future returns on investment.

Upon being asked of Suzuki’s different methods of signaling, Mr. Moorkens could not say that there were any:

“No they (Suzuki) do not. Tesla is a global headache. It isn’t Tesla per se, it is Google, Facebook etc. Tesla did something amazing in that they changed the world. Despite this, it is a firm that loses an enormous amount of money. To think that people like Tesla, who have different new ideas every day and are very present publicly, are going to produce bad cars...”

He then went on to speculate of the massive success that a partnership between Tesla and Suzuki would have. Tesla's technology and ability to manipulate the market in its favor matched with Suzuki's ability to produce cars would be "the perfect match".

Despite this, one could argue that Suzuki does emit market signals as it very publicly announces profits on its small vehicles at a time where very few companies can say the same thing. Likewise, Suzuki's quality in production is a fact that is often communicated to the market which is a reason for why the company's shares are so highly valued.

"What is weird about the stock market is that people know how to value Suzuki's know-how. And if the stock market value of the company is so high and so stable, it is because people know that one day something can happen."

All in all, Suzuki do not go out of their way to communicate their strong points to the market which is why a partnership between themselves and Tesla would be a complementary meeting of two worlds according to the chairman of Alcopa.

#### *3.4.4 Suzuki Motor: Analysis Concluding Comments*

Throughout the interview with Mr. Moorkens it became apparent that he felt as if there are a number of strategic changes that Suzuki should implement to better improve recessionary and even more importantly post-recessionary performance. The key areas of necessary improvement according to the head of the Suzuki importer in Belgium were marketing, opportunistic capacity (by seizing diversification options), R&D and new product releases as well as communication with the market.

What Suzuki lacks is commercial strength and this deficiency often sees them perform in a lesser manner during periods of economic downturn. It has, according to Mr. Moorkens, seen them lose market share and miss out on key investments that would have allowed them to remain on top. The example evoked was that of their motorcycle activity but it is an argument that is generalizable to Suzuki's automobile activity as well. Table 5 summarizes the insight gained from the interview relative to the seven hypotheses:

Table 5: Rejection or confirmation of hypotheses destined to ensure maximization of recessionary performance.

| Hypotheses                                   | Suzuki Motor | Comments                                                                                                                                                                                                                |
|----------------------------------------------|--------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| H1: Diversifying during periods of recession | ✓            | One of the things that Suzuki should begin to do as not doing so represents a wasted opportunity. Necessary for post-recessionary recovery.                                                                             |
| H2: Increasing marketing expenditure         | ✓            | People now purchase products for their brand image, their marketing. Consumers are flouded with information which is why it is important for firms to ensure that they remain at the forefront of the consumers' minds. |
| H3a: Utilizing strategic alliances           | ✓            | Allow for the improvement of recessionary and post-recessionary performance provided that there is complementarity between the partners as well as cultural fit.                                                        |
| H3b: Utilizing M&A's                         | ×            | Not the preferred method of corporate development for Suzuki.                                                                                                                                                           |
| H4: Cost efficiency over cost cutting        | ✓            | The objective should always be efficiency and the company does not cut costs dratically, it maintains costs as low as possible and continuously seeks the further leaning out of these.                                 |
| H5: Increased R&D and new product releases   | ✓            | Important to maintain or increase R&D as not doing so may allow rivals to close the gap and gain market share. Releasing products of enhanced quality and slicker design is a must.                                     |
| H6: Market Signaling                         | ✓            | Important tool as it may inflate the value of a company's shares even if its financial results are less than stellar.                                                                                                   |

## 4. Discussion

The study was focused on understanding the different strategies followed by manufacturers in the automobile industry that would allow them to ensure better recessionary and post-recessionary performance. In this thesis, six different strategies emerging from prior literature were identified as being capable of steering firms in the automobile industry into the direction of good performance and good recovery. These were then tested by considering case study data collected at three distinct automobile manufacturers in Belgium. Extensive interviews were conducted with the highest ranking member at the companies' offices in Belgium and Luxembourg.

It was important to consider three separate cases of firms that had each performed differently throughout the 2008 recession so as to comprehend what was done wrong and what they know to be have been effective. Throughout the interviews a number of similarities between the companies arose regarding what they believe to be good strategies to follow in recessions. Table 6 serves as a summary of the case results and interviews.

Table 6: Summary of the case results relative to the different hypotheses.

| Hypotheses                                   | Mazda Motor | Kia Motors | Suzuki Motor |
|----------------------------------------------|-------------|------------|--------------|
| H1: Diversifying during periods of recession | ✓           | ✓          | ✓            |
| H2: Increasing marketing expenditure         | ✗           | ✓          | ✓            |
| H3: External Corporate Development           | ✓           | ✓          | ✓            |
| H4: Cost efficiency over cost cutting        | ✓           | ✗          | ✓            |
| H5: Increased R&D and new product releases   | ✓           | ✓          | ✓            |
| H6: Market Signaling                         | ✓           | ✓          | ✓            |

All three of the interviewees felt as if seizing the opportunities presented by recessions to invest and diversify product and service offerings is the way to go in ensuring that performance during future recessions as well as during the post-recession recovery phases is increased.

Interestingly enough, of the three firms, only Kia Motors, the company that reported one of the best performances in the automobile sector both during and after the 2008 crisis, truly adhered to this strategy. As mentioned previously, Kia Motors diversified their product offering by entering the SUV market during the recession in question.

In the case of Mazda Motor, the director of the company's activity in Belgium and Luxembourg made it clear that diversification is something that Mazda will be looking to do come the next crash. He did however state that risk-mitigating tools (such as alliances) should be used should the diversification attempt not pay off. Likewise, the head of Suzuki in BELUX feels that not diversifying during recessions represents "a wasted opportunity." Both of these companies boasted less than stellar performances and diversification is an aspect they believe will help them do better next time around.

As far as marketing expenditure is concerned, only one of the three firms, the one that performed the poorest (Mazda Motor), believes that marketing budget is an easy area to cut costs when the economic climate is rough. The idea behind that rationale is that it is an area where all the car manufacturers cut their budgets.

Despite this, both Suzuki and Kia believe in the power of increased marketing in such periods. According to the chairman of Alcopa (Suzuki manufacturer in Belgium and Luxembourg), consumers today buy marketing and are inundated with information. As a result, companies need to be prepared to spend the required sums to ensure that their brand are in people's minds as this can also help post-recession when demand picks up. Similarly, the interview with the Kia president (in the BELUX) brought to light the importance of marketing during economic downturns as a means of furthering market positioning and enhancing brand image.

In terms of external corporate development in the form of strategic alliances and M&A's, all three companies were strongly in favour of it granted they differed as far as which type they prefer. Both Mazda and Suzuki Motor view strategic alliances as the way forward whereas Kia Motors have previously exploited M&A's to success.

Interestingly enough, all three of the interviewees evoked similar factors as being key in the potential success of either an M&A or a strategic alliance. Firstly, there is the importance of cultural compatibility. Mazda were not discouraged following the collapse of their alliance with Ford Motor in 2008, they simply learned the importance of finding a partner of good cultural fit, which is why they are now in a strategic alliance with Toyota Motor. Mr. Jang as well as Mr. Moorkens raised the same point.

Furthermore, another necessary condition for opting for either M&A's or strategic alliances was that of strategic fit and complementarity. Mr. Jang insisted on cost-reducing synergies as well as R&D sharing as being the biggest advantages of external corporate development. Similarly, the goal of Mazda's new alliance with Toyota Motor is to share technology and R&D costs thus spreading the risk. In order to achieve these ends, Mr. Moorkens insisted on the need for the partners to be compatible as well as complementary.

Lastly, the need to maintain unique products was mentioned by all three of the interviewees. In the case of Mazda, they felt like they struggled to maintain the products they wanted to make because of the pressure put on them by Ford Motor. In Kia's case, it is an issue they are wary of and have tried hard to keep their unique brand identity following the acquisition by the Hyundai group.

As a result, it can be concluded that external corporate development is a course of action that is valued very highly during periods of recession as being able to spread risk and improve performance in spite of the hard economic times. For either strategic alliances or M&A's to be successful however, partners must be of cultural fit, complementarity must be present and unique identities maintained.

Next, it was theorized that cost efficiency would ensure better performance both during and after economic downturn's as opposed to extreme reactionary cost cutting, in the form for example of mass lay-off's. Outside of the questionable humanitarian reasons behind avoiding mass sackings (Gandolfi et al., 2011), it could also result in a loss of talent that would impact a firm's ability to recover correctly when demand picks up (Michael & Pearce, 2006).

The Mazda and Suzuki representatives when quizzed on the subject conclusively vouched for the advantages of cost efficiency and the need to avoid cutting costs too drastically. The reason for this is that both firms strive on a day-to-day basis to optimize their cost structure, with Mazda Motor specifically putting in place a program allowing them to efficiently govern costs following their performance during and immediately after the 2008 crisis. The goal of this program is to avoid making the mistakes they made in 2008 by drastically cutting costs as it ultimately ended up impacting operations and thus their general performance.

Mr. Jang, whilst vouching for the need to seek cost efficiency, conveyed the message that Kia Motors views large cost cuts as a necessity in periods of economic crisis. Whilst areas like talent retention, marketing and R&D should remain unhindered, other areas need to have their costs significantly cut.

Another topic on which opinion was unanimously shared is that of the importance for performance, during and after recessions, of continued and potentially increased R&D as well as new product releases. One of the problems identified that led to the underwhelming performance of Mazda Motor was that of the company's reaction to R&D. R&D costs were at the time slashed due to the financial difficulties stemming from Ford Motors' emergency sales of the majority of their Mazda stake. Likewise, Mr. Moorkens identified a weakness in R&D as the reason for Suzuki Motor's mediocre recovery following the prior financial crash.

Several factors were cited as reasons for which R&D and new product releases in recessions are incredibly important. Firstly, the automobile in particular is heavily product-orientated. Service is important but it is not more important than the product itself. As such, constructors must continue to have a product-driven approach. Continued improvements to their products is key in their survival and prosperity.

Secondly, new product releases allow for demand stimulation in an economic period in which demand needs to be stimulated. Creating demand in low demand periods is vital. Attracting consumers with new products that are of superior quality and design is important in maximizing performance as it increases sales during and after the recession. In addition, continuously improving R&D allows for improvements in quality as well as in the product-development cycle allowing companies to preempt their rivals in the release of new attractive products once the crisis has subsided.

Finally, an argument stemming from the different case study analyses conducted in this thesis is that of the importance of R&D and new product releases in maintaining market share. Not improving and extending product offering, irrespective of the economic period, allows rivals that are doing so to close the gap and gain market power.

The last topic of interest was that of market signaling. It is admittedly a domain in which there is no exhaustive and conclusive knowledge. Nonetheless, the term and even importance of

market signaling is not one that is foreign to the three companies in question. It was widely agreed that emitting signals to the market that are susceptible to influence market valuation is a task that each of their companies should be completing.

According to Mr. Sileghem, Mazda Motor certainly did not engage in market signaling during the recession of 2008. One might however argue that the company was engaged in market signaling but not in the intended way. The well document financial issues following the quick-fire sales of their shares by Ford Motor may have sent ominous signals to investors of the future viability and prosperity of the company. The repercussions were then felt on Mazda's share price. In any case, it is a practice in which Mazda will engage in during future recessions.

Mr. Jang also believes that market signaling does indeed impact market valuation. The caveat mentioned by both he and the Mazda director is that the firm needs to possess a unique advantage. In Kia Motors' case, they sent a signal of the quality of their product to the market through their choice to fix seven years of warranty in Europe and ten years in the United States. As it pertains to Mazda, they are currently developing a unique innovative new type of car engine that they believe will rival the current market trend of electric vehicles. As a result, they intend to investigate the various signals they can send to the market to put forward their unique technology.

In assessing Tesla's market valuation compared to their book value, Mr. Moorkens conceded that market signaling is an important tool in increasing the value of a company's shares irrespective of its financial results.

In summary, market signaling can aid in improving a company's market valuation during recessions provided that the firm in question possesses a unique technology as well as a charismatic and dynamic representative allowing for the increase of future expectations regarding the way in which the shares will evolve.

## 5. Conclusion

### *5.1 Research Limitations*

In-depth interviews carry many advantages that have previously been detailed. A big limitation of case study research analysis and interviewing however is the fact that there is a degree of subjectivity present (Everaert et al., 2006).

In addition, there is no guarantee that bias was completely nullified seeing as the sole researcher in this thesis was involved in the data collection process. Whilst several measures were taken to minimize interviewer bias, it is impossible to conclude that there was absolutely no measure of bias involved.

Furthermore, the three firms considered are all big multinational corporations present in over 100 countries worldwide. They are all meaningful players in the automobile market which entails that they all have large financial means to apply the different strategies that are destined to improve recessionary performance and post-recessionary recovery. A question can therefore be raised as to whether the results of this study can be generalized to other industries and more particularly to other firms that may not possess such financial resources.

### *5.2 Future Research*

Moving forward, it would be interesting to come back to the findings of this thesis following the next economic recession that hits the automobile market. Working with the same firms would allow to see whether they effectively did apply the changes they deemed necessary and whether the strategies they followed did ultimately lead them to having a good performance during the recession as well as a potent recovery after it.

Furthermore, the research could be extended by considering a larger dataset comprising European and American automobile constructors as well.

Lastly, research centralized around the phenomenon of market signaling could be undertaken. It is a topic that has little concrete prior literature but that all of the manufacturers (considered in this thesis) unanimously agreed is vital. Tesla was cited repeatedly as a prime example of

how market signaling can impact financial performance and as such, research analyzing the various signals sent by Tesla and their immediate impacts on their market valuation would bring enlightenment on the subject.

### *5.3 General Conclusion*

The thesis began by detailing the origin and general impacts of the 2008 financial crisis on the manufacturing and automobile industries. The impacts and shocks absorbed by firms in the automobile business worldwide were great. In order to minimize or better manage such impacts on the performance of automobile firms during and after the next recession, a set of strategies were tested with the goal of proposing a couple of these so as to ensure improved financial and commercial performance.

Six hypotheses were identified and elaborated following the literature review. The hypotheses were theorized to have been useful for firms in other industries and so they were tested in this thesis across three different automobile manufacturers: Mazda Motor, Kia Motors and Suzuki Motor.

Qualitative case study data was obtained in the different firms' Belgian offices with in-depth interviews being carried out with the highest ranking member in these offices' hierarchy. Outside of the data collected on the field, publicly available data was also considered (for example in the form of financial statements or press releases).

Ultimately, four of the hypotheses were confirmed on the basis of the case study analyses:

1. Automobile firms that make different purchases, invest in new markets and diversify during recessions will be able to profit off and better sustain performance during future financial slumps.
2. Utilizing the various advantages of external corporate development, whether through mergers and acquisitions or strategic alliances, allows for an improvement in performance during recessions.
3. Increasing R&D expenditure and launching new products leads to better performance during and after the recession.

4. Market signalling can aid automobile firms to improve financial performance and maintain market valuation in periods of economic downturn.

The objective of reinforcing existing research by testing the different recessionary strategies in order to elaborate a concrete set of recommended strategies for firms in the automobile business to follow was accomplished. On the basis of the case studies, the aforementioned strategies should ensure the betterment and potential maximization of performance during and immediately after the next economic downturn.

It is undeniable that changing strategic approach and philosophy is an arduous task. As can be seen through the Suzuki Motor case study, Mr. Moorkens seemed to know what strategic changes the company should undergo in order to ensure better future recessionary performances.

However, he also evoked the fact that Suzuki is a family-driven company strongly dependent on Mr. Suzuki himself. Furthermore, middle-management at the firm is extremely light and suffers from a lack of decision-making autonomy. All this to say that knowing what is helpful and applying what is helpful are two very different notions.

Whilst changing strategies is difficult, it is not impossible as can be seen through the big strategic changes that Mazda Motor have applied in response to their underwhelming performance during the recession of 2008. They recognized their mistakes and responded instantaneously so as to strive for a considerably better performance during the next economic downturn. Therefore, and as mentioned previously, changing strategic approach is difficult but possible.

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