Jaguar Cars, 1980 to 1990.
Illusion, Delusion, or Lost Opportunity?

by

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A Thesis submitted in fulfilment of the requirements for the degree of Doctor of Philosophy of Cardiff University.

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May 2009

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ABSTRACT

The Jaguar motor company in the 1980s under the leadership of John Egan attained an iconic status as a modern, revitalised company, being hailed as one of the great success stories of the decade. This view portrayed Jaguar as having resolved the quality and industrial relations problems that had developed during the period of the BL stewardship from 1968 to 1980, and which in consequence achieved record levels of sales volumes, and profits, before declining again after 1986.

This thesis presents a revisionist view of the problems suffered by Jaguar during the 1980s, and the reasons why the company under the Egan management failed to resolve these. Building on the previous work of Lewchuk and Whisler it examines Jaguar's deficiencies in management, industrial relations, engineering, production, product quality, and marketing. Moreover, it reveals how these deficiencies were masked by a clever public relations programme by Jaguar which concealed both its failure to address many of its inherited problems, and the reasons for its decline after the launch of the new saloon car in 1986.

There have been no academic works that have focused on Jaguar, and little has been written about Jaguar's quality problems, and the part played by its inadequate engineering function, under Egan. This thesis, therefore, might be seen as filling an obvious gap in the historiography of the British motor industry in general, and Jaguar in particular. The research to a large extent has been an exercise in oral history. However, the information obtained from interviews with an elite group of former executives of Ford or Jaguar, and other informed individuals, has been triangulated with published and unpublished primary sources such as Jaguar's Reports and Accounts, press releases, newspaper reports and articles, and official statistics.

ACKNOWLEDGEMENTS

I would like to express my heartfelt thanks and appreciation to all those who gave me such a great deal of help and support during the research for, and writing of, this thesis.

For what perforce is mainly a piece of oral history I am particularly indebted to all those, very busy men, who agreed to be interviewed for this research, and gave so generously of their time. But in particular I must express my thanks to Mike Dale, John Edwards, and Roger Putnam who also, uncomplainingly and with seemingly infinite patience, answered my follow-up questions and provided me with further invaluable information by e-mail and telephone. I am even more grateful to Mike Dale for reading through many of the chapters and correcting errors of fact, and interpretation.

I am indebted to the staff of the British Library in London for their help in identifying and accessing source material, particularly when, to their considerable bemusement, it involved supplying fifteen years' editions of *Automotive News*. My thanks also to Robert Gruszka of The Society of Motor Manufacturers and Traders for his help, particularly in enabling me to access their Automotive Data Services records.

At Cardiff Business School, Professor Garel Rhys, my first supervisor, provided much needed initial guidance and contacts. But most of all I am grateful to Professor Trevor Boyns, who took on the somewhat onerous task of supervising my work following the retirement of Professor Rhys. Without Professor Boyns' guidance and support, and especially his often highly challenging comments, this thesis would never have been completed.

Finally, and most importantly of all, my thanks to Jackie, my wife, and Anthony, my son, to whom this thesis is dedicated. Their love, support, and continual encouragement over the six years or so that this thesis has been researched and written has been more valuable than they can ever have appreciated.

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INTRODUCTION

History is not what actually happened but what the surviving evidence says happened. If the evidence can be hidden and the secrets kept, then history will record an inaccurate version.

- Tom Bower. "The Perfect English Spy" (Biography of Sir Dick White).

The Jaguar motor company in the 1980s under the leadership of John Egan attained an iconic status as a modern, revitalised company, being hailed as one of the great success stories of the decade. This is a view that portrays Jaguar as having resolved the quality and industrial relations problems that had developed during the period of the BL stewardship from 1968 to 1980 and, in consequence, achieved records levels of sales volumes, and profits. When Jaguar experienced considerable difficulties from 1986 onwards, its explanation of this being due to the strength of Sterling, particularly against the US Dollar, and lower demand for luxury cars in the US market, was widely accepted without question. This is the conventional, or popular, view of the 1980s' Jaguar story, and which continues to be reiterated in various recent enthusiasts' books about Jaguar. However, there were a number of problems with Jaguar, which, although indicated in the 1990s after the Ford takeover, were never actually looked at in detail, and never really understood.

This thesis presents a revisionist view of the problems suffered by Jaguar during the 1980s, highlighting in particular the company's deficiencies in engineering, and its quality problems, and the reasons why the Egan management failed to resolve these. It is this view that is presented as the addition to the body of existing knowledge required of any doctoral thesis. This thesis also throws light on the company's relationship with the City, and in addressing such issues as corporate governance, in an era before this topic became of major concern in the 1990s, it touches on aspects that have not been discussed in the literature.

In researching this thesis, due regard was paid to the various factors influencing or determining the success of the company during this period, but it was apparent from the start that a factorial approach in itself would provide but a superficial and unsatisfactory explanation. Indeed, the causes of Jaguar's failure in the late 1980s

were obviously more fundamental and deep-rooted than were portrayed at the time, and since, and require explanation in terms of a broader conceptual framework than that provided by factorial analysis. This was apparent from the various studies produced by Whisler, particularly regarding British Leyland (which with its various predecessor companies such as BMH, and BMC, is referred to throughout this thesis as BL), and his focus on the semi-specialist sports cars that were merged into BL.[1] The exclusion of Jaguar from his doctoral thesis, and his first book, published in 1995, is not clearly explained by Whisler, and was something that was questioned by Foreman-Peck in his review of that work.[2] In this review, Foreman-Peck suggests that if Jaguar, and other companies, had not been merged into "one huge, mismanaged business that went bankrupt", then it might have been able to innovate successfully. Whisler did not seek to address such issues in his 1999 book, a work which contained hardly any mentions of Jaguar. This thesis, therefore, seeks to fill this gap in Whisler's various studies.

Much of this thesis concerns John Egan. Given that he was the executive head of Jaguar for the whole of the 1980s, it could not be otherwise. In examining his role, this thesis summarizes, and provides an analysis of, what an elite group of people have said about him and the way in which he ran the company. Here, the oral evidence presented in this thesis is remarkably consistent, revealing that there were major shortcomings as far as Egan's management of the company was concerned. In particular, his failure as a manager to recognize his own limitations denied Jaguar an effective recognition of the problems, and hence its ability to resolve them. Also, throughout this thesis reference is made to "the Egan management", a term which is used to refer collectively to the senior management team at Jaguar, not just Egan alone. Many of the problems at Jaguar were due to the deficiencies of various members of this team, but, even so, the responsibility for their actions rested ultimately with Egan, as the Chairman and Chief Executive of the company. The buck always stops with top management in any company, and in this case

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[1] Whisler, Timothy R. *Niche Products in the British Motor Industry: A History of MG and Triumph Sports Cars, 1945-1981.* Unpublished PhD thesis. London, London School of Economics, 1991; Whisler, Timothy R. *At the End of the Road. The Rise and Fall of Austin-Healey, MG, and Triumph Sports Cars.* (Greenwich and London, 1995); Whisler, Timothy R. *The British Motor Industry 1945-1994. A Case Study in Industrial Decline.* (Oxford, 1999).

[2] Foreman-Peck, James. "Review of At the End of the Road. The Rise and Fall of Austin-Healey, MG, and Triumph Sports Cars by Timothy R. Whisler". *The Journal of Economic History.* Volume 56, Number 4 (December 1996). pp939-940.

Egan was the top management. Such issues are discussed at length in Section 4.3. However, whilst much of the blame for Jaguar's problems may be attributed to the way in which Egan ran the company, there can be little doubt that he exhibited many praiseworthy personal qualities which gave great benefit to Jaguar, at least initially. In particular there can be no doubt that the survival of Jaguar in the early 1980s owed everything to his personal enthusiasm and drive, enthusing others such as the US dealers, and saving the company from the very real threat of closure and then going on to mastermind its privatization. In doing so, Egan faced considerable difficulties in terms of a lack of resources and other constraints, and whilst the importance given to, and the impact of, Jaguar's public relations campaign has been heavily criticized, it is debatable, given the limited financial resources available, whether he could have realistically pursued any other marketing strategy. This is discussed in Chapter Five.

Under founder William Lyons' autocratic rule, from 1922 to 1972, Jaguar had operated, and been managed, little differently from other British-owned motor companies of the time, being subject to the same national cultural legacy, the constraints and deficiencies of which were reinforced by the enervating impact of the bureaucratic control and neglect of BL's ownership in the 1970s. In his highly revisionist text, Whisler argued that such constraints impeded the introduction of mass production and modern corporate organisations in Britain[3], an argument which may be applied to Jaguar, implying that change in Jaguar required changing the nature of the corporate ethos, and giving rise to a change versus continuity debate. However, as is argued in Section 1.2, the Egan management failed to bring about a cultural adjustment within Jaguar despite the fact that the company had, by 1980, become subjected to financial and market crises and new decision-makers. A primary aim of this thesis, therefore, is to ascertain the reasons for such failure, and the part it played in the sudden deterioration in Jaguar's fortunes after 1986.

Moreover, it will become apparent that the change versus continuity debate was clouded by the impact of a clever public relations programme by Jaguar which concealed both its failure to address many of its inherited problems, and the reasons for its decline after the launch of the new saloon car, the XJ40, in 1986. A further aim of this

[3] Whisler, *The British Motor Industry 1945-1994.* pp406-408.

thesis, therefore, has been to explore Jaguar's notable success in masking from the public the extent of its various problems and deficiencies, these being initially camouflaged by its largely currency-aided recovery, and then by the downturn in the US market for luxury cars and the strengthening of Sterling against the US Dollar. Certainly, Jaguar's remarkable public relations campaign was highly effective in promoting the image of a revitalised organisation which had broken out of its legacy of poor industrial relations, low productivity, and inadequate product quality, but which then fell victim to circumstances not of its own making. Here, this thesis examines the extent to which this image had a basis in reality, or might be dismissed as being illusion. Allied to this is the issue of the extent to which Jaguar's management, as a result of its initial success, deluded itself that it had overcome the problem of the cultural issues that was the legacy of both BL and the Lyons era. Furthermore, the thesis considers whether, given the evidence presented, Jaguar's failure in the 1980s resulted from lost opportunities.

Finally, given the lack of academic publications relating to Jaguar it is intended that this thesis fill a gap in the historiography of the British car industry in general, and Jaguar in particular, and with the large amount of informed personal recollection that was obtained whilst conducting this research, it is offered as a piece of oral history, with the transcripts of the various interviews being presented as an Appendix.

However, there is a major caveat in regard to the archive material for this thesis. The refusal of Ford to permit access to the Jaguar corporate archives relating to the 1980s limited considerably the amount of primary material that could be consulted, although the oral testimony from an elite group, triangulated with other sources, has compensated for this to a significant extent. Even so, there would not necessarily have been great insights afforded by the Jaguar corporate archives, for as Tosh and Lang point out, "the primary sources available to the historian are an *incomplete* record, not only because so much has perished.....but also because a great deal that happened left no material trace whatsoever".[4] This would appear to have been the case with regard to Jaguar. Such problematic issues are discussed in Section 2.1. A consequence of Ford's

[4] Tosh, John with Lang, Sean. *The Pursuit of History. Aims, methods and new directions in the study of modern history.* Fourth Edition. (Harlow, 2006). p178.

lack of co-operation in regard to the Jaguar archives is that many topics covered in this thesis cannot be covered as comprehensively, or robustly, as might otherwise be possible, or might be desirable. For example, the availability of statistics regarding production lost through industrial disputes, and any internal commentary on such disputes, might have provided significant insights into, and enabled some quantification of, the success, or otherwise, of Jaguar's industrial relations policies, and enabled comparison with other companies in the industry.

In summary, this thesis seeks to address the following issues:

1. What was the nature of the Jaguar company under Egan's management? Does the conventional view of it as a revitalised modern company, which encountered difficulties due to factors beyond its control, have a basis in fact, or is this illusion created by Jaguar's remarkable public relations effort?
2. What were the problems impacting on Jaguar's performance in the 1980s under the Egan management, and were these the principal causes of Jaguar's considerable difficulties in the second half of that decade? Was the failure to recognise and resolve the various problems a result of management delusion, exacerbated by its initial success in turning round the company?
3. Did Jaguar's failure in the 1980s reflect lost opportunities?

In pursuing these issues, the thesis has the following structure:

The first chapter outlines the conundrum posed by the conventional Jaguar story in the 1980s, touching on some of the macro-economic variables affecting the company at this time. It then, as essential background to the Jaguar case study presented in this thesis, reviews briefly the explanations offered for the decline of the British economy, and the demise of the indigenous British motor industry.

Chapter Two focuses on a discussion of the methodology of the research undertaken for this thesis, and a review of the literature examined, and the sources used. As is revealed, there has been very little published academic work on the subject of Jaguar during the 1980s, most of the academic writing relating to the post-war motor

industry being devoted to exploring the reasons for the demise of BL. Much of the material for this research was obtained from published primary sources such as Jaguar's Reports and Accounts, and newspaper reports and articles. However, given the refusal of Ford to allow access to Jaguar's archives of the period, the thesis also relies heavily on interviews with former executives of Ford or Jaguar, or other informed individuals. The reliability of these as source materials is also discussed.

In order to provide a context for this study, the history of Jaguar from its founding in 1922 to the appointment of Egan in 1980 is discussed in Chapter Three. A central theme of this chapter is an examination of the various factors that led to the development of the corporate ethos and ingrained attitudes that prevailed when Egan assumed control of the company.

Chapter Four considers the broader aspects of management during the Egan era, examining the extent to which Egan's management style and actions mirrored those of the traditional British-owned motor industry, rather than heralding a new dawn at Jaguar. In particular, the chapter considers whether Egan's management resulted in the reinforcement of prevailing attitudes and institutional structures rather than effectively challenging them. It also discusses the issue of corporate governance as practiced by Jaguar in an era when this issue was becoming of increasing concern to the City audience.

Chapters Five, Six, and Seven look at specific individual functions within Jaguar, questioning whether pervasive weaknesses were to be found in each area, and, if so, the extent to which the consequent deficiencies had a debilitating impact on Jaguar. As is demonstrated, only in a few instances, such as the distribution system, were such deficiencies corrected. Thus, Chapter Five investigates Jaguar's interface with its marketplace, exploring the reasons for changes in demand for Jaguar vehicles in the 1980s, and challenges Jaguar's reputation at that time as a marketing-led organisation.

Chapter Six examines the nature of Jaguar's manufacturing capabilities, and considers the extent to which Jaguar had moved away from outmoded working practices and poor labour relations that were its cultural legacy from the Lyons era, and from BL. It examines the impact of Egan's failure to bring about cultural adjustment within Jaguar, and questions the veracity of Jaguar's claims of being a rejuvenated manufacturing

operation, with an enthusiastic workforce, free from strikes and disputes, that could deliver a quality product in good time.

Chapter Seven explores the reliability and quality issues that faced Jaguar, their causes, and their consequent impact on the company, and argues that these resulted largely from pervasive weaknesses in the engineering function which were not addressed because, like Edwardes in relation to BL, Egan believed that Jaguar's prevailing engineering and management cultures were sound.

Chapters Eight and Nine review the financial aspects of Jaguar's performance in the 1980s, and the company's relationship with the City following its privatisation in 1984. Chapter Eight provides a financial quantification of some of the problems that impacted on Jaguar's performance, enabling the testing of the validity of the premise that Jaguar's assertion that the downturn in its profitability from 1987 onwards resulted purely from the weakening of the US Dollar and an overall softening of the imported luxury car sector in the USA. Indeed, it is revealed that the downturn in Jaguar's profits from 1987 onwards resulted from a variety of different factors, the vital one being that of the considerable increase in warranty costs. Chapter Nine, in examining Jaguar's performance as a publicly-quoted company, argues that Jaguar's management failed to take advantage of the opportunities afforded it by its position as a publicly quoted company, and suggests that Jaguar's financial planning was inadequate, being constrained by the cultural legacy of profit retention and depreciation as the main sources of investment funds. It also discusses the extent to which institutional investors reacted to dissatisfaction to the performance of Jaguar in terms of Hirschman's mechanisms of "Exit" and "Voice", especially in regard to issues such as corporate governance.

Finally, the Conclusion presents the main findings of the research, addressing the issues stated above, and the major limitations of the analysis and, given these, suggests areas for further research.

CHAPTER ONE

BACKGROUND, AND EXPLANATIONS FOR BRITISH ECONOMIC AND MOTOR INDUSTRY DECLINE.

1.1 Introduction

This chapter provides the background and context for the study of Jaguar in the 1980s. In the thesis Introduction it was stated that the conventional or popular view of the Jaguar story during this decade was that of a highly successful company. This view is elaborated on in Section 1.2, together with some of the issues that emerged after the Ford takeover that pointed to this view being inappropriate or incorrect.

As mentioned also in the thesis Introduction, this research has been particularly concerned with examining the fundamental and deep-rooted causes of Jaguar's difficulties that became apparent after 1986, and which in turn owed much to the decline of the British economy, and the decline of the British motor industry.

Given that the indigenous British motor industry was an important part of British economic activity from the end of World War Two onwards, explanations for its decline must be set in the context of the decline of the British economy during the twentieth century. Section 1.3 outlines some of the explanations offered for British economic decline, and Section 1.4 presents explanations for the decline of the indigenous British motor industry. This enables the Jaguar story to be placed in the context of the indigenous motor industry overall, the development of a distinct corporate culture, and ingrained attitudes regarding labour relations and working practices at Jaguar during the Lyons' era, and their reinforcement under the BL stewardship of the company being more fully examined in Chapter Three. A chronology of the key events in the Jaguar story as related in this thesis is presented in Table 1.1.

Table 1.1: Chronology of Key Events

1922	Swallow Sidecar business founded in Blackpool by William Lyons and William Walmsley.
1927	Production of first motor car.
Nov 1928	Company relocates to Coventry.
Oct 1933	"SS Cars Limited" registered as a private limited company.
Jan 1935	Shares listed on London Stock Exchange. Walmsley leaves the business.
Feb 1945	Company's name changed from "SS Cars Limited" to "Jaguar Cars Ltd".
1959	Annual deliveries exceed 20,000 cars for first time.
July 1966	Jaguar merges with British Motor Corporation to form British Motor Holdings (BMH).
May 1968	Merger of BMH with Leyland to form British Leyland Motor Corporation (later BL).
Sept 1968	Launch of the XJ6 Series I.
1970	Annual deliveries exceed 30,000 cars for first time.
1971	Annual deliveries peak at 32,589 cars (not to be exceeded until 1984)
1972	Sir William Lyons retires from the business, following which Jaguar is more closely integrated into BL. "Jaguar Cars Ltd" ceases to exist as a separate company.
Sept 1973	Launch of XJ6 Series II.
Sept 1975	Launch of XJ-S Grand Tourer.
Nov 1977	Michael Edwardes becomes Chairman of BL.
March 1979	Launch of XJ6 Series III.
1979	Annual sales fall 45%, to 14,861 cars - a 20-year low.
Sept 1979	Edwardes re-establishes Jaguar as a separate company within BL.
April 1980	John Egan joins Jaguar as Chief Executive.
May 1981	US Dollar (at £1=$2.1) begins period of significant strengthening against Sterling.
1982	Annual sales exceed 20,000 cars for first time since 1978. US sales at a record 10,349 cars, exceeding UK sales for first time. Company returns to profit.
Aug 1984	Company's shares listed on the London Stock Exchange at 165p per share, raising £297million.
end 1984	Jaguar begins currency hedging operations.
March 1985	High point of US$ against £, with rate of £1=$1.064. Thereafter $ gradually weakens against Sterling.
Nov 1985	Jaguar shares in American Depository Receipt form listed on the New York NASDAQ exchange.
1985	Pre-tax profits peak at £121.3million.
Oct 1986	Launch of XJ40 in UK and Europe.
Feb 1987	Share price at pre-October Crash peak of 627p, valuing the company at £1,147million.
May 1987	Launch of XJ40 in USA, Australia, and Far East.
19 Oct 1987	Stock market "Crash".
Nov 1987	Share price reaches post-Crash low of 270p (577p immediately pre-Crash).
1988	Annual sales peak at 49,494 cars retail, 50,603 cars wholesale, but pre-tax profit falls 51% to £47.5million.
May 1988	Whitney Engineering Centre opened.
May 1988	US$ weakens to £1=$1.89.
Spring 1989	Jaguar enters into co-operation discussions with General Motors.
13 Sept 1989	First half results reveal operating loss of £2.8million.
19 Sept 1989	Ford announces it is to buy 15% stake in Jaguar in the stock market. Shares rise to 467p on news, valuing Jaguar at £854million.
31 Oct 1989	Government announces it will waive the Golden Share, allowing Ford to make an immediate bid for Jaguar.
2 Nov 1989	Jaguar agrees Ford's offer of £1,600million (850p per share).
1 Jan 1990	Ford assumes control of Jaguar.
April 1990	John Egan leaves Jaguar.

1.2 Jaguar PLC: From Thatcherite Icon to Thatcherite Pariah

In the boom era of the 1980s nothing was portrayed as epitomizing more the revival of British manufacturing industry as a result of what Lorenz, and others, termed "Mrs Thatcher's Industrial Revolution"[1] than the changed fortunes of Jaguar. Indeed, the Jaguar company at this time was held forth as the role model for the benefits accruing to British industry from Thatcherite macroeconomic policies, which were aimed at heralding a new period of *laissez-faire*.[2] Jaguar's success was held to be "a microcosm of the Thatcherite dream"[3], which demonstrated, as far as the government was concerned, what could be achieved when a business was released from the shackles of the inefficient bureaucratic state-run sector into the hands of enlightened entrepreneurial management. Certainly, the Jaguar example did much to reinforce the Thatcherite political doctrine, with the company's return to the private sector in 1984 paving the way for other privatisations.[4]

Without doubt, by the end of the 1970s, the once-proud Jaguar company, after nearly a decade of being subjugated to the monolithic BL, had lost its identity, its reputation, and its *raison d'être*, and was in danger of being closed.[5] This was hardly an idle threat given that BL had closed the Triumph and MG sports car operations in 1979. In 1980, a year in which Jaguar made a pre-tax loss of £47.3million, and with volume sales in the important US and UK markets at less than half the 1975 levels, John Egan, who was to be described as personifying "the successful Thatcherite executive"[6], was appointed to run the business with the remit, according to John Edwards, Egan's Finance Director, of returning it to profitability, or else supervising its closure.[7]

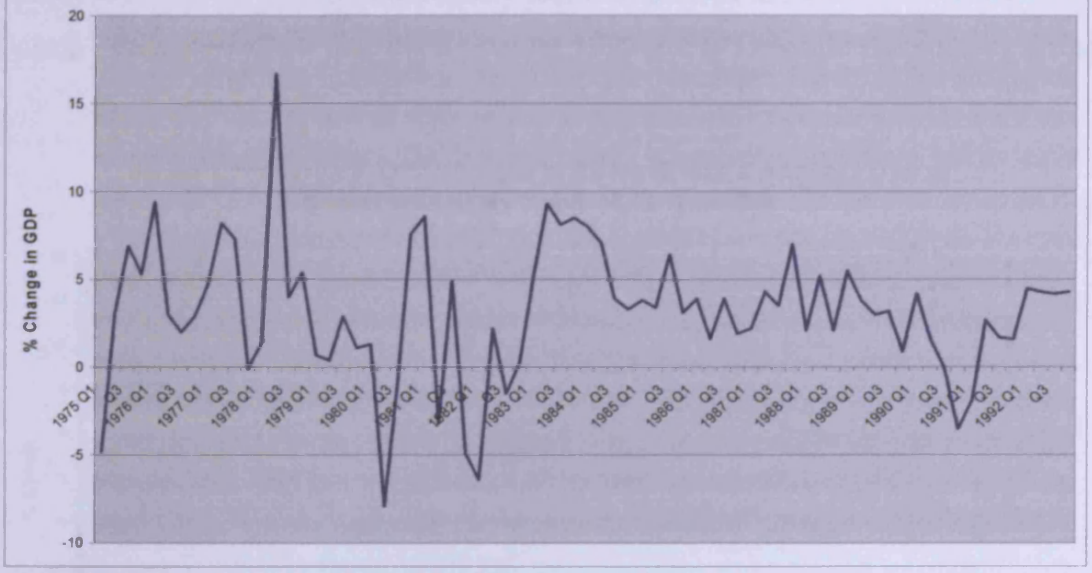
Under Egan's leadership, Jaguar volume sales recovered significantly from their 1980 nadir, and would more than double by 1985, enabling pre-tax profits to exceed £120million in both 1985 and 1986. The most important factor in Jaguar's recovery in the

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[1] Lorenz, Andrew. *A Fighting Chance. The revival and future of British manufacturing industry.* (London, 1989). pp1-25.
[2] Hall, Peter A. "The State and Economic Decline" in Elbaum, Bernard and Lazonick, William *The Decline of the British Economy.* (Oxford, 1986). p290.
[3] *The Times*, 8 May 1989.
[4] Lorenz. *op.cit.* pp252-8.
[5] Lorenz. *op.cit.* p253; Underwood, John. *The Will to Win. John Egan and Jaguar.* (London, 1989). p63.
[6] Lorenz. *op.cit.* p252.
[7] John Edwards. Interview with the author, November 2002. *Appendix* p50.

early 1980s was its sales performance in the US market, despite this economy being in recession at that time. As can be seen in Figure 1.1, the US economy in the period 1975 to 1983 was highly volatile. In 1973 the international oil crisis, resulting from a quadrupling of oil prices by OPEC, and the 1973-74 stock market crash, resulted in a recession which lasted until March 1975. There followed a period of rising unemployment that coincided with rising inflation, and which saw variable growth rates of GDP. A second oil crisis, resulting from the Iranian Revolution of 1979 and which sharply increased the price of oil around the world, produced the recession of 1981-82. This resulted in the imposition of tight monetary policy in the US to control inflation.

Figure 1.1: Quarter on Quarter % Change in US GDP, 1975 to 1992



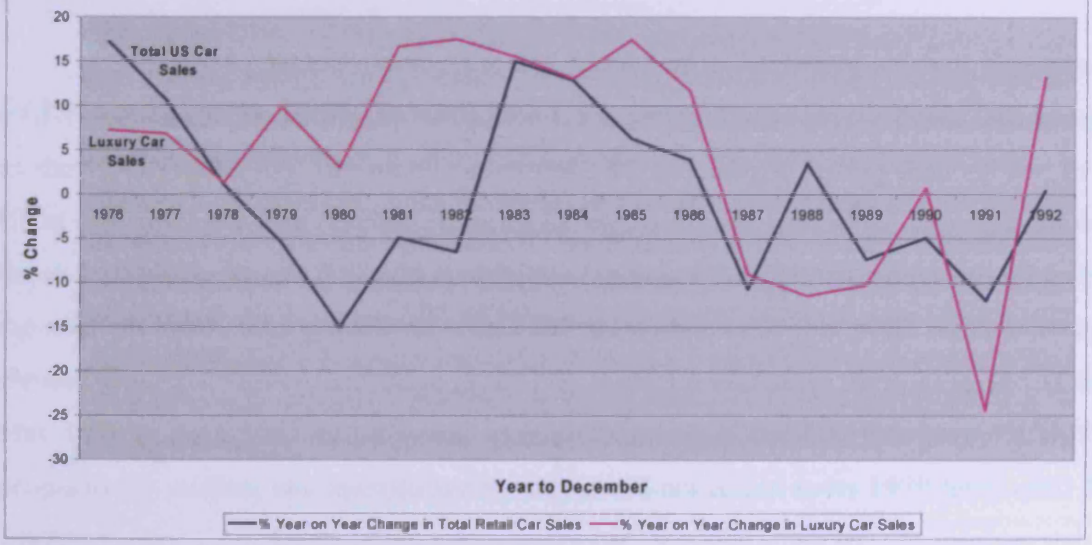
Source: Bloomberg

The period of fairly strong growth after 1983 resulted in inflation beginning to increase, with the Federal Reserve raising interest rates from 1986 to 1989. This weakened growth somewhat, but a combination of the 1990 oil price shock, debt accumulation of the previous decade, and growing consumer pessimism plus a weakened economy resulted in the recession of 1990-91.

These factors obviously impacted on car sales in the US, but did not reflect directly the peaks and troughs of the pattern of changes in GDP. The changes in total US

car sales and in the sales of European luxury cars (BMW, Jaguar, Mercedes) are shown in Figure 1.2. Here it can be seen that total car sales experienced a sharp decline following the 1973 oil crisis, and although there was a short-lived recovery after 1983, factors such as increased interest rates, and increased levels of debt, mentioned above, resulted in total sales continuing to decline. However, as can also be seen, sales of the luxury car segment in the period to 1987 remained buoyant, despite the overall increase in demand for more fuel efficient cars. The factors resulting in Jaguar's strong performance in this period are discussed in Sub-Section 5.6.4 below. Whilst the downturn in sales of European luxury cars that commenced in 1987 might be ascribed in part to the effects of recessionary pressures and the 1987 stockmarket "Crash", this is too simplistic an explanation given the arrival of the Japanese into the US luxury car market in 1988-89, discussed in Sub-Section 5.6.5 below. Indeed, if the luxury sector as defined in Figure 1.2 was extended to include Lexus and Infiniti then the figures for 1990 and 1991 would show strong growth.

Figure 1.2: Year on Year % Changes in US Retail New Car Sales - Overall Market and Luxury Segment, 1976 to 1992

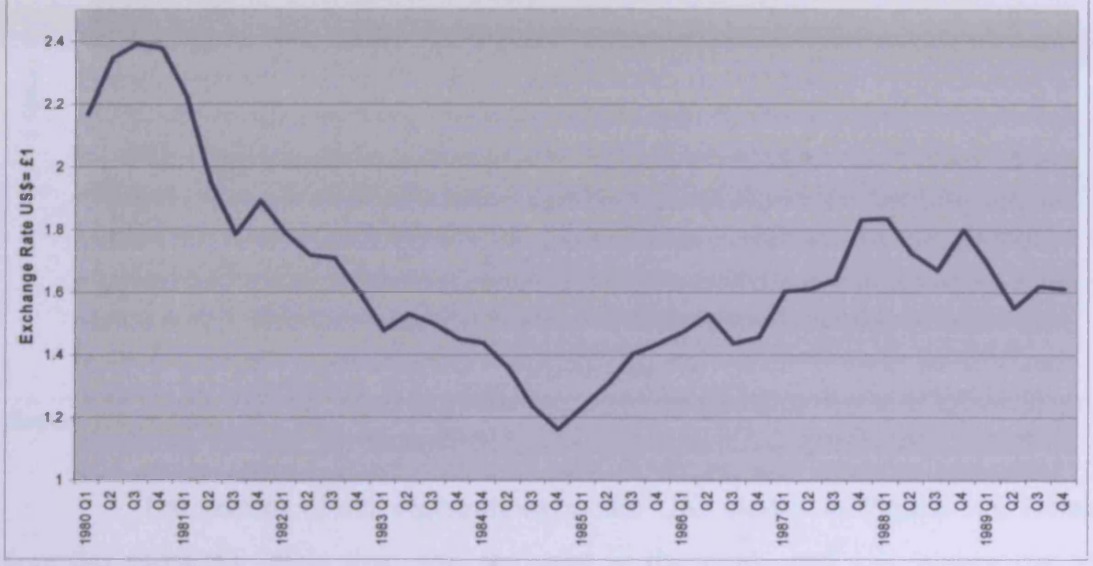


Source: Automotive News. Various Issues.
Note: Luxury Car Segment consists of BMW, Jaguar, and Mercedes sales only.

Whilst success in the US market was vital to Jaguar's recovery, it was the strengthening of the US Dollar in the first half of the decade, shown in Figure 1.3, that

was the key factor in boosting Jaguar's profits in this period. This is discussed in Sub-Section 8.3.3 below.

Figure 1.3: US Dollar/Sterling Exchange Rates, Quarter End, 1980 to 1989.

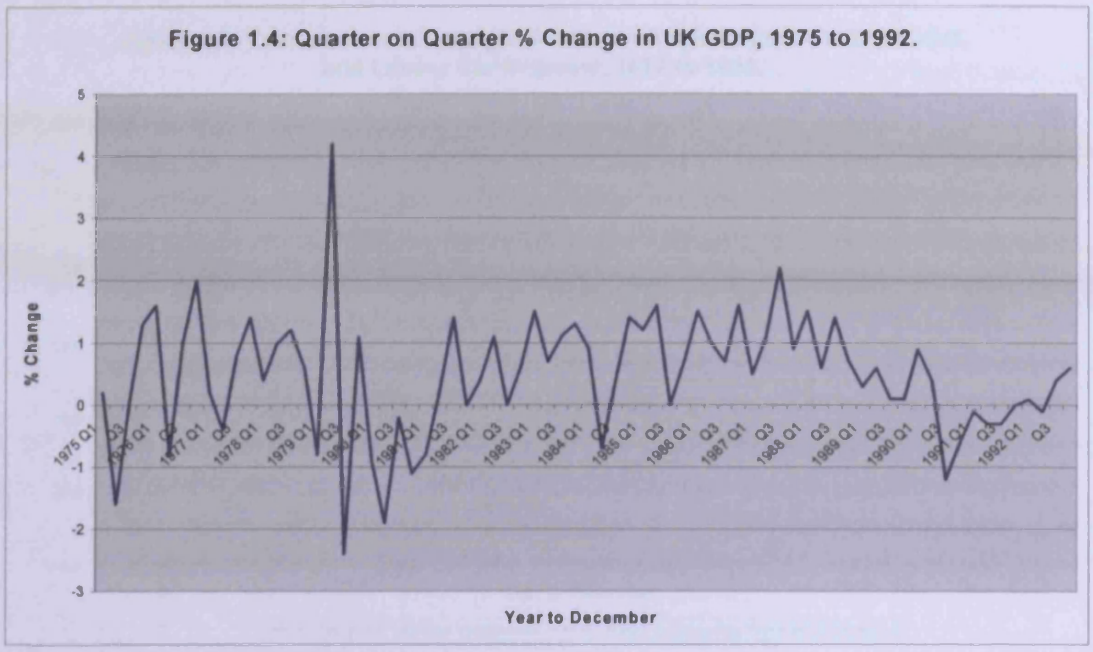


Source: Datastream.

The UK, Jaguar's domestic, and second most important market, experienced a GDP growth pattern similar to that of the USA, but with less severe peaks and troughs, as shown in Figure 1.4. The recession of 1980-82 was longer lasting than of that in the US at this time, and also resulted from the second oil crisis mentioned above. Following the end of this recession, it would take thirteen quarters for GDP to recover to its level at the start of 1980[8], and growth rates in GDP thereafter until the 1990 recession began showed greater volatility than those in the US. Here, Lorenz notes that in the period from May 1979 to June 1987 employment in manufacturing in the UK fell from 7.1 million people to 5.1 million, and manufacturing output did not return to its 1979 level until July 1987.[9]

[8] Bank of England Quarterly Inflation Report, February 2009. p20.
[9] Lorenz. *op.cit.* p3.

Figure 1.4: Quarter on Quarter % Change in UK GDP, 1975 to 1992.

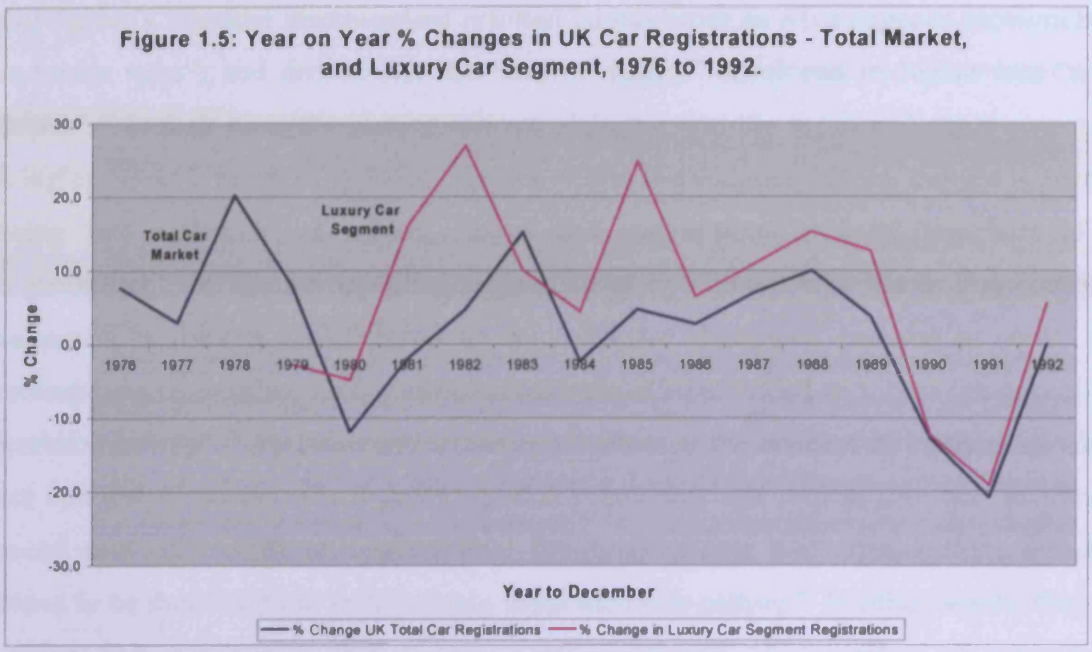


Source: Bloomberg

The pattern of car registrations in the UK, shown in Figure 1.5, reflected more the economic cycle than was the case in the USA, and UK luxury car sales (consisting of BMW, Jaguar and Mercedes in Figure 1.5) reflected more the pattern of overall demand than was the case in the USA. However, the pattern of demand for luxury cars was far more resilient than that of the overall market, possibly because of the number of luxury cars bought by corporate customers for the use of their executives. Hence, the "Crash" of 1987 appeared to have no impact on the registrations of luxury cars, demand not going into decline until the recession impacted in 1990. In the USA, in contrast, nearly all cars were bought as private purchases by individuals, and, as noted above, the 1987 "Crash" would have resulted in some weakening of demand, although denied by Dale in regard to Jaguar.[10] The marque that suffered most in the US from the "Crash" was Porsche[11], whose sales figures are not included in Figure 1.2 above.

[10] Mike Dale. Interview with the author, June 2007. *Appendix* p42.
[11] Joe Herson. E-mail of 8 July 2008 to Mike Dale, and forwarded to the author. *Appendix* p16 n17.

Figure 1.5: Year on Year % Changes in UK Car Registrations - Total Market, and Luxury Car Segment, 1976 to 1992.



Source: SMMT Automotive Data Services Records.

Note: Luxury Car Segment consists of BMW, Jaguar, and Mercedes sales only. Figures prior to 1978 were not available from the SMMT.

Jaguar's success in the early 1980s made it a prime candidate for privatisation, and in 1984 the company was floated on the London Stock Exchange with an initial valuation of £297million. The received wisdom of the mid and late 1980s, promoted by Jaguar itself, and embraced by customers, media, the City, and other interested parties alike, was that under Egan the company, "released from the red tape of state ownership, released from the tyranny of union militancy, became a highly motivated business underpinned by a workforce committed through high earnings and lucrative share ownership".[12] Indeed, Lorenz was later to observe that Jaguar's revival "had acquired Churchillian connotations"[13], it being seen as having been transformed into an internationally competitive enterprise that was "a metaphor for British manufacturing".[14]

Whipp *et al*, in their 1989 paper[15], commented that the turnaround in Jaguar's performance at this time was "by any standards remarkable". They dismissed the view

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[12] *The Times*, 8 May 1989.

[13] Lorenz. *op.cit.* p254.

[14] *Ibid.* p257.

[15] Whipp, Richard, Rosenfield, Robert, and Pettigrew, Andrew. "Culture and Competitiveness: Evidence from Two Mature UK Industries" in *Journal of Management Studies.* Volume 26, Number 6. November 1989. pp561-585.

that Jaguar's financial improvement resulted largely from an advantageous movement of exchange rates[16], and denied that the "cult of quality" developed in Jaguar was "a PR device".[17] In their view the metamorphosis of Jaguar was the result of Egan's success in bringing about a range of cultural changes within the company. Here, culture is seen as being "the collection of beliefs, values and assumptions held by members of an organization"[18], a similar definition to that stated by Church who wrote that corporate culture is "a concept which refers to the collective sharing of patterns or norms and assumptions concerning the organization (or parts of it) to which members (managers and workers) belong".[19] An important attribute of culture is the concept of institutions which are systems of norms which govern social behaviour, and which give rise to various social structures within an organization. Whipp *et al* note that organizations are often found to be multi-cultural or to contain more than one culture.[20] In other words, they are seldom homogeneous in this respect, being composed of a number of institutional structures. The importance of corporate culture may be seen as lying "in its effects on the behaviour of groups and of individuals and therefore on the functioning of the organization".[21]

The effect on Jaguar of the cultural adjustments instigated by Egan, according to Whipp *et al*, included:

- the raising of standards of, and a major overhaul of, quality and reliability, enabling Jaguar "to re-establish and expand its market position continuously".[22]
- the successful completion of the XJ40 project.[23]
- the development of a comprehensive communications structure which successfully got the message of quality and productivity across to the workforce.[24]

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[16] *Ibid.* p570.
[17] *Ibid.* p572.
[18] *Ibid.* p565.
[19] Church, Roy. "Deconstructing Nuffield: The Evolution of Managerial Culture in the British Motor Industry" in *The Economic History Review, New Series*, Volume 49, No 3 (August 1996). p565.
[20] Whipp *et al. op.cit.* p566.
[21] Church. *op.cit.* p565.
[22] Whipp *et al. op.cit.* p570.
[23] *Ibid.* p573.
[24] *Idem.*

- a major shift in engineering thinking and behaviour, a "conceptual change" here resulting in vehicle engineers no longer assuming that they "supply a car for the marketeers to sell" but rather asking the marketeers "What type of product do you want to sell?".[25]

In the view of Whipp *et al* and others[26], Jaguar had overcome many of the labour relations and bad work practices long associated with BL, and which had given the British motor industry such a bad reputation. As a result, Jaguar was able to achieve significant improvements in productivity. Other important, much publicised, but largely supposed, developments, in addition to the improvements in quality, were the modernisation of outmoded production facilities, and the restructuring and rejuvenation of Jaguar's distribution network. In particular, Jaguar was seen as having been transformed from a production-driven to a marketing-led company. Egan became included in Thatcher's "good list", and in 1986 received a more tangible reward in the form of a knighthood.

However, this highly positive view of Jaguar in the Egan era is based on the performance of Jaguar up to 1986, and appears to be the product of an uncritical acceptance of Jaguar's own version of events. Although published in 1989, Whipp *et al*'s paper illustrates its arguments with data only from the period 1981 to 1985, and thus excludes the problems suffered by Jaguar after this time, and which reveal many of the aspects of that paper's analysis of Jaguar to be incorrect, as will be demonstrated in this thesis.

Indeed, Jaguar started getting into difficulty from 1987 onwards, for which it blamed the strength of Sterling, particularly against the US Dollar, and lower demand for luxury cars in the US market in the wake of the 1987 Stock Market "Crash" (discussed in Section 9.4 below). Consequently, Jaguar, "could no longer be held up as an example of

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[25] *Idem.*

[26] For example: Dellheim, Charles. "The Historian and Corporate Culture" in *The Public Historian*, Volume 8, Number 2 (Spring 1986). pp9-22; Goodman, John. "Industrial relations and restructuring in manufacturing: Three case studies in the United Kingdom" in *International Labour Review*, Volume 128, Number 5 (1989). pp601-620. Salama, Alzira. "The use of an organisation's biography as a research method" in *Management Education and Development*, Volume 23, Issue 3 (Autumn 1992). pp225-233.

what free enterprise could achieve once it was freed from the shackles of nationalisation. It began to need money, and the only way that could be achieved was for the government to let the Golden Share go by the board and let the other interested companies come in and take it over".[27] Indeed, according to Edwards, Thatcher had become disillusioned with Jaguar by 1989, seeing it as "teetering on the edge, therefore let's get rid of it".[28] Given this scenario, it had become inevitable that Jaguar, no longer enjoying government support, would be acquired by one of the major global motor manufacturers.

Whilst the fortunes of Jaguar during the 1980s might, on the basis of the above, be explained in terms of conventional micro- and macro-economic analysis, a problem in so doing arises from the fact that the popular view of it as a revitalised, modern company that suffered from macroeconomic forces that were beyond its control can be demonstrated to be based on incorrect or incomplete evidence and premises. Indeed, as mentioned in the thesis Introduction, the *raison d'etre* of this study has been to provide such demonstration. As Whisler has pointed out, there were factors such as production costs, distribution structures, and product design and characteristics, including quality, that were more important than currency values in determining British export sales.[29] Certainly, the well-publicised industrial disputes that Jaguar faced in 1989, and the problems with quality and manufacturing revealed following the Ford takeover, demonstrated the fallacy of the 1980s received wisdom appertaining to Jaguar. As *The Sunday Times* was later to observe: "Egan.....had done virtually nothing to improve Jaguar's manufacturing capability. Working practices in Browns Lane [Jaguar's assembly plant in Coventry] and in its sister plants were untouched by the Thatcherite revolution."[30] What had become very apparent was that the changes that had taken place were superficial, as management and labour continued to adhere to their traditional behaviour. Egan had failed to implement the reforms necessary to overcome the ingrained attitudes that had been a feature of post-World War Two British industry in general, and the

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[27] Hamish Orr-Ewing. Interview with the author. November 2002. *Appendix* p113.
[28] John Edwards Interview. *Appendix* p55.
[29] Whisler, Timothy R. *The British Motor Industry 1945-1994. A Case Study in Industrial Decline.* (Oxford, 1999). p282.
[30] *The Sunday Times*. 27 October 1991.

British-owned motor industry in particular, and could justifiably be accused of what Elbaum and Lazonick termed "entrepreneurial failure".[31]

1.3 Explanations for the Decline of the British Economy

Hall described the performance of the British economy since the 1880s relative to its industrial competitors as being one of continuous deterioration, Britain's industries being characterised by "low levels of investment, a reluctance to innovate or expand, and outmoded forms of work organization at both the managerial and shopfloor levels".[32] Such aspects have been included among the numerous neoclassical economics explanations offered for Britain's productivity performance but, as Hall noted, they are merely the "proximate causes" of economic decline, their presence in Britain itself being a factor requiring explanation.[33] Support for this view was provided by Caves who argued that, "sweeping economic explanations of poor productivity performance can be discounted" since accounts citing factors such as poor management, troubled industrial relations, and a rigid class structure "lack generality, unity, and historical depth".[34] Consequently, Caves maintained that there was a requirement for an explanation comprehensively rooted in the characteristics of the British economy and society and which may be found in the continuity of British institutions and the values embodied by them.[35] Indeed, according to Caves and Krause, Britain's productivity problem resulted from the constraints of "cultural conservatism" which had led to "entrepreneurial failure".[36] Elbaum and Lazonick also noted the predisposition of neoclassical economics to disengage from processes of socioeconomic development because of the difficulties presented in regard to quantification and the development of theoretical frameworks that are regarded as being essential for scientific rigour.[37] Even so, they observe that there had

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[31] Elbaum, Bernard and Lazonick, William. "An Institutional Perspective on British Decline" in Elbaum, Bernard and Lazonick, William (eds) *op.cit.* p2.
[32] Hall, Peter "The State and Economic Decline" in Caves, Richard E, and Krause, Lawrence (eds) *Britain's Economic Performance* (Washington DC, 1980) p266
[33] *Idem.*
[34] Caves, Richard E "Productivity Differences Among Industries" in Caves and Krause, *op.cit.* p391.
[35] *Ibid.* p140.
[36] Caves, Richard E, and Krause, Lawrence "Introduction and Summary" in Caves and Krause. *op.cit.* p19.
[37] Elbaum and Lazonick. *op.cit.* p1.

been "an increasingly widespread recognition among economic analysts that relative decline must have complex sources within the British social fabric".[38]

In their earliest study, Williams *et al* reject micro and macro economic explanations of British industrial decline, and also reject pervasive national attitudes and institutions as the cause of a "British disease" but fail to provide any justification for such a stance, dismissing institutional analysis out of hand as making "an unjustifiable leap to an underlying social cause".[39] Furthermore, whilst they dismiss factorial explanations which cite issues such as immobility of labour and lack of appropriate skills as being a list of symptoms, not an explanation for industrial decline, they then go on to embrace the factorial approach in their several works, consistently blaming management for implementing inappropriate production and product strategies.[40] Subsequent to Williams *et al*'s 1983 study in which they rejected the institutionalist approach, Elbaum and Lazonick produced their influential work on the subject[41], but this did not appear to have induced Williams *et al* to revisit their views in the light of Elbaum and Lazonick's arguments.

Elbaum and Lazonick maintain that the decline of the British economy in the twentieth century resulted from rigidities in the social and economic institutions that had developed in the nineteenth century.[42] They argue that the overall impact of these, whilst difficult to quantify with any degree of precision, was undoubtedly considerable, being, amongst other things, interlinked with the failure of British industry to equal the productivity improvements achieved by its international competitors through availing itself of mass production techniques. It is of note that the productivity failure argument is a view promulgated more recently, for example, by Broadberry and Crafts, particularly in

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[38] *Ibid* p15.

[39] Williams, Karel; Williams, John; Thomas, Dennis. *Why are the British Bad at Manufacturing?* (London, 1983). p17.

[40] Williams, Karel; Williams, John; Thomas, Dennis. *Why are the British Bad at Manufacturing?* (London, 1983); Williams, Karel; Williams, John; Haslam, Colin. *The Breakdown of Austin Rover: a case study in the failure of business strategy and industrial policy.* (Leamington Spa, 1987); Williams, Karel; Haslam, Colin; Williams, John; Johal, Sukhdev; with Adcroft, Andy. *Cars. Analysis, History, Cases.* (Providence, 1994).

[41] Elbaum and Lazonick. *op.cit.*

[42] *Idem.*

regard to the engineering industry[43], although this is an assertion disputed by Booth.[44] Elbaum and Lazonick reject the "cultural conservatism" explanation for the failure to improve productivity, arguing that, in terms of its cultural endowment, twentieth century Britain was no worse off than Japan or continental European nations that had been pre-capitalist, tradition-bound societies at the time that Britain was experiencing its industrial revolution. This did not prevent them from being able to undertake successful economic development in the twentieth century, and should not therefore have held back Britain. Indeed, Elbaum and Lazonick reject all culturally based explanations of British decline, arguing that these "shed no light on why Britain was less successful than later industrializers in remoulding customary attitudes that encumbered economic performance".[45] Rather, they maintain that Britain was impeded from adopting modern technological and organizational innovations as a result of the constraints that were the legacy of Britain's long mid-Victorian boom that marked the culmination of the world's first industrial revolution.[46]

The salient point here is that Britain's industrial revolution had resulted in industries that were composed of a number of small, often family-owned, firms that held small market shares. In this atomistic economic organization, shopfloor workers had been allowed considerable autonomy over the work process, such positions of control being further consolidated in the final quarter of the nineteenth century as a consequence of the increasing impact of competitive capitalism, and in the first half of the twentieth century, by the growth of trade union power, the rise of the Labour Party, and the emergency conditions of two world wars. As Elbaum and Lazonick note, management conceded much to shopfloor workers "rather than jeopardise their individual fortunes through industrial conflict while there were profits to be made"[47], and, lacking the means to alter existing constraints, in effect taking them as "given", thereby losing the "right to

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[43] Broadberry, Stephen and Crafts, Nicholas. "UK productivity performance from 1950 to 1979: a restatement of the Broadberry-Crafts view" in *Economic History Review*, Volume 56, Number 4 (November 2003). pp718-735

[44] Booth, Alan. "The manufacturing failure hypothesis and the performance of British industry during the long boom" in *Economic History Review*, Volume 56, Number 1 (February 2003). pp1-33.

[45] Elbaum and Lazonick. *op.cit.* p2.

[46] *Ibid.* pp2-3.

[47] *Ibid.* p4.

manage", particularly in regard to the utilization of technology.[48] Moreover, British industrialists were averse to losing family control of their firms (a view eschewed by Foreman-Peck *et al* in respect to the motor industry[49]), and even when horizontal mergers occurred the directors of the firms involved refused to relinquish authority, resulting in the widespread use of the holding company structure. In any case, few managers had the skills required to develop modern corporate organizations, and the British educational system, with an emphasis on a classical education, failed to provide industry with suitably trained technical and managerial recruits. Demand for such graduates, anyway, was not strong, with highly competitive businesses unwilling, or unable, to afford them. Here, Whisler notes that Nuffield believed that a formal education offered no 'great value' to his organization, a view that was held to various degrees throughout the British motor industry for most of the twentieth century.[50] Consequently, there developed in the workplace ingrained attitudes and value systems which, as Elbaum and Lazonick observe, "obstructed individualistic as well as collective efforts at economic renovation".[51]

It was the existence of such attitudes and norms that were held to have resulted in British growth rates lagging behind those of newly industrializing countries, with serious competitive losses in international markets being incurred in the period from 1899 to 1913.[52] Unimpeded by the sort of entrenched institutional structures existing in Britain, the newly industrialised economies were able to remould their customary attitudes and implement fairly easily the mass production methods and corporate forms of managerial co-ordination that were to be the vital factors in their economic success. To meet this international challenge, British firms needed to emulate this adoption of modern production and organizational methods. However, uncertain of the investment returns, and unwilling to face conflict with the unions over, for example, pay and manning levels, British management turned away from the idea of introducing costly new mass production methods. Moreover, the corporate structure was such as to prevent the control

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[48] *Ibid.* p6.
[49] Foreman-Peck, James, Bowden, Sue, and McKinlay, Alan. *The British Motor Industry.* (Manchester, 1995). p45.
[50] Whisler. *op.cit.* p160.
[51] Elbaum and Lazonick. *op.cit.* p2.
[52] *Ibid.* p9.

and co-ordination required for the effective vertical integration of production and distribution, as well as the efficient use of resources within the firm. Although Foreman-Peck *et al* do not appear to accept that there was a "widespread British failure to develop professional management organisations"[53], they do note that the veneration of the non-professional manager was a common feature of British manufacturing as a whole.[54]

Management and shopfloor institutional structures are the most frequently asserted constraints on the transformation of Britain's productive system, but other institutional structures were as much entrenched and also resulted in significant constraints here. These included structures in "industrial relations, enterprise and market organization, education, finance, international trade, and state-enterprise relations".[55] Given the pervasive nature of these constraints on the British social system overall, it is hardly surprising that they impacted also on the new industries that developed in Britain in the twentieth century. As will be described in the next section, the development, and decline, of the British motor industry during this time closely resembled the pattern of development of British industry in general.

1.4 Explanations for the Decline of the Indigenous British Motor Industry

Motor vehicle manufacturing in the 1950s and 1960s was one of the leading British manufacturing industries, and was the country's second leading exporter, accounting for 19% of UK total exports in 1960.[56] However, during the 1970s the British-owned motor manufacturing sector demonstrated what Whisler, echoing the sentiments of many other writers, described as being "one of the most spectacular industrial declines of the post war period".[57] Unsurprisingly, academic studies of the British-owned motor industry from the mid-1970s onwards have tended to focus on explanations for the decline, concentrating on BL, the only indigenously-owned volume car maker. Most of these studies tend to agree that the sector suffered low productivity, poor industrial relations, inordinate trades union control over effort levels, inefficient work practices, under-investment, inadequate corporate strategies, and lacklustre marketing. However, as

[53] Foreman-Peck *et al. op.cit.* p45.
[54] *Ibid.* p186.
[55] Elbaum and Lazonick. *op.cit.* p2.
[56] Whisler. *op.cit.* p4.
[57] *Ibid.* p1.

Williams *et al* argued, and noted above, such factorial accounts merely provide a list of symptoms, not an explanation for decline. In addition, the danger in the factorial approach, as Foreman-Peck *et al* point out, is that "description can masquerade as explanation".[58] Moreover, there has been little agreement as to the primacy of causation, and the chain of events leading to the sector's decline. Generally, scholars have blamed either management, or labour, or both, for failing to adjust to the conditions of greater market competition, and to adopt modern production methods.

Williams *et al*, despite their arguments against seeking factorial explanations, mentioned above, blame the decline on management and external market limitations, claiming in their final work that management had struggled ineffectually to surmount such limitations.[59] This is a view somewhat at odds with the assertion made in their previous work that such market limitations "could only have been sufficiently modified by political action".[60] However, the soundness of Williams *et al*'s arguments here has to be called into question given the bias exhibited in their several studies. Undeniably, they consistently defend labour's role, and at the same time consistently blame management for the decline of the sector, arguing that after 1968 BL's management "was not the saviour but the destroyer of the company".[61] They are equally dismissive of the frameworks provided by orthodox economics and, unsurprisingly given their scathing comments on BL's management, by management discourse, particularly as represented by business school academics. Neither of these frameworks, undefined by Williams *et al*, is held by them to provide an adequate understanding of motor manufacturing.[62] However, the shortcomings of management *per se* is far too simplistic, if not superficial, an explanation, for, as Foreman-Peck *et al* argue, "management is always responsible in one sense" and, therefore, any objective appraisal of the industry's decline must question whether any management "could have been expected to address the particular challenges of the industry".[63] Whilst Foreman-Peck *et al* place the onus on management to overcome

[58] Foreman-Peck *et al. op.cit.* p89.
[59] Williams *et al. Cars. Analysis, History, Cases.* p10.
[60] Williams *et al. The Breakdown of Austin Rover. p12.*
[61] Williams *et al. Cars. Analysis, History, Cases.* p136.
[62] *Ibid.* p3.
[63] Foreman-Peck *et al. op.cit.* p90.

poor industrial relations, they do accept that the constraints in this area may have rendered management's task impossible.[64]

Church agrees that weaknesses in corporate structures and management were important, but sees this as only one of three interacting factors, the other two being industrial relations problems, and the constraints placed on business decision-making by government policies.[65] A number of commentators, such as Rhys[66] and Adeney[67], have argued that government demand management policies, particularly the 'stop-go' measures of the 1950s and 1960s, had serious negative effects on the industry. In this view, 'stop-go' demand management is seen to have increased uncertainty and made strategic and market planning more difficult, constantly forcing management to adjust output and manning levels, thereby exacerbating industrial relations problems. Dunnett, the leading advocate of this view, argued that most of the industry's problems were not causes of its decline but symptoms of government macroeconomic policies.[68] Wilks, however, embracing a wider, institutional, perspective by examining the government-industry interface, concluded that this relationship in regard to the motor industry was marked by "an elite insularity and an associated underdevelopment of institutional linkages"[69], and consequently the government lacked awareness of the issues facing the sector, and operated irresponsibly in respect to it.[70]

Wilks, in attributing the sector's decline to intransigent attitudes obstructing adjustment to environmental changes, echoes the approach adopted by Lewchuk, although both embraced different perspectives, with Lewchuk focusing on production systems. Here, Lewchuk argued that neither labour nor management were to blame for the collapse of BL since both were merely pursuing their own selfish agendas, and that the problems arose from attitudinal constraints regarding the attempt to move to US-style production methods.[71] Lewchuk's views fit within the broader framework of Elbaum and

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[64] *Ibid.* p184.
[65] Church, Roy. *The rise and decline of the British motor industry.* (Cambridge, 1994). p129.
[66] Rhys, D G. *The Motor Industry. An Economic Survey.* (London, 1972).
[67] Adeney, Martin. *The Motor Makers. The Turbulent History of Britain's Car Industry.* (London, 1988).
[68] Dunnett, Peter. *The Decline of the British Motor Industry. The Effects of Government Policy, 1945-1979.* (London, 1980).
[69] Wilks, Stephen. "Institutional insularity: government and the British motor industry since 1945" in Chick, Martin (ed). *Governments, Industries and Markets* (Aldershot, 1990). p157.
[70] *Ibid.* p166.
[71] Lewchuk "The Motor Vehicle Industry" in Elbaum and Lazonick. *op.cit.* pp135-6.

Lazonick's work, and whilst he has found supporters such as Church and Whisler [72], his work has been criticised by Williams *et al* who dismiss it as "just another instance of one dimensional thinking".[73] Williams *et al*, consistent with their rejection of the institutional approach in their earlier study[74], refuse to acknowledge that Lewchuk's work has wider application in aiding analysis regarding the demise of the sector. But such wider application is apparent from the following brief discussion of the origins and development of institutional structures and constraints in the British-owned motor industry.

Given its origins in the British skilled craft-based engineering and coach building industries, it is perhaps not too surprising that the infant British motor industry of the late nineteenth century resembled the atomistic economic organization of those industries, with shopfloor workers being allowed considerable autonomy over the work process. This was further encouraged by the employment of piece rates, utilised in the engineering industry since the 1880s[75], a system which empowered labour, particularly in regard to effort levels, and which led to the establishment of various institutional structures that reflected the sector's origins, as well as the wider economic environment. Lewchuk argues that this tradition of independence of the shopfloor, with management having but limited control over the labour effort, was formalised in the strengthening of the shop steward system as a result of the favourable conditions enjoyed by labour during the abnormal circumstances of the two world wars.[76]

Lewchuk refers to this approach to production, which he defined as being characterized by "weak managerial control over labour, low wages, low capital-labour ratios, low levels of machine integration along flow principles, and piecework payment systems"[77], as the "British system", a term regarded as inappropriate by Foreman-Peck *et al* who reveal that it was a system not confined to Britain, with piece rates being employed by the Siemens company in Germany in the 1880s.[78] The advantage of this system was that it permitted acceptable profits to be realized despite the low labour

[72] Church. *op.cit.* p120; Whisler. *op.cit.* p35.
[73] Williams *et al. Cars. Analysis, History, Cases.* p149.
[74] Williams *et al. Why are the British Bad at Manufacturing? p17.*
[75] Foreman-Peck *et al. op.cit.* p30.
[76] Lewchuk. *op.cit.* p140.
[77] *Ibid.* p136.
[78] Foreman-Peck *et al. op.cit.* p31.

productivity resulting from labour-intensive production methods. As Lewchuk pointed out, provided that capital-labour ratios were low enough, low throughput on capital equipment could be offset by the payment of low wages.[79] Furthermore, as Foreman-Peck *et al* have observed, labour-intensive production methods have the added advantage of enlisting worker ingenuity in maintaining production and in ensuring quality.[80] This system, according to Whisler, was well suited to producing low volume, high labour content, niche products such as Jaguar, Land Rover, and MG sports cars, but its institutional structures proved to be considerable impediments when such organizations sought to introduce mass production methods and modern corporate organisations.[81] In contrast, the US "Fordist system", through a combination of "rigid managerial control, flow production technology, and relatively high wages paid on fixed day rates"[82], produced high levels of labour productivity.

Whisler asserts that the implementation of Fordist techniques, particularly the replacement of piece-rate payments with measured day work, at BL in 1971/72 emanated from management's recognition that traditional methods of production were hindering the company's performance. Although the resultant changes revealed the inflexibility of shopfloor attitudes, management failed to address these to correspond with the radical strategic change. Indeed, management's concessions to the shop stewards in order to obtain their agreement to the change served only to reinforce existing attitudes and beliefs. The failure to modify existing, or to develop new, supervisory and planning techniques demonstrated the rigidity of managerial attitudes, particularly at the junior management level where there were not the production planning and supervisory skills necessary to replace the shop stewards who had performed these tasks under piece-work.[83] In effect, BL overlaid Fordist production methods and measured day work payment on a corporate culture shaped by labour-intensive production methods and piece work payments. Unsurprisingly, in the new system management reverted to previous measures such as increasing manning levels to obtain increased production levels, thereby failing to achieve targeted productivity levels and lower unit costs, and defeating

[79] Lewchuk. *op.cit.* p140.
[80] Foreman-Peck *et al*. *op.cit.* p173.
[81] Whisler. *op.cit.* pp184-5.
[82] Lewchuk. *op.cit.* p136.
[83] Whisler. *op.cit.* pp218-228.

the object of introducing Fordist methods in the first place.[84] As Whisler observed, the new production methods were incompatible with traditional practices and attitudes, and was a major factor in BL's collapse in 1974.[85]

However, there were other constraining factors that had developed and which would play a major role in the sector's demise. Whisler's doctorial thesis, one of the few micro-economic studies of the industry, examined MG and Triumph sports car manufacturing.[86] In it, and in his two subsequent books[87], Whisler, building on the work of Elbaum and Lazonick and of Lewchuk, argues consistently that an examination of individual functions reveals that the British-owned motor manufacturing firms in the 1970s especially suffered from pervasive weaknesses. This was particularly the case in engineering, product-design characteristics, product quality, and distribution. The failure to address these resulted in various deficiencies, the debilitating effects of which, according to Whisler, "have largely been over-looked in previous academic studies, which have concentrated primarily upon manufacturing, investment, and corporate strategies".[88]

One particular resultant weakness can be seen in the merger movement of the 1950s and 1960s, which did not result in integrated organizations but in loosely federated holding companies, the structure of the sector remaining *de facto* atomistic until after the BMC-Leyland merger in 1968. The tradition of personal control established by the founders of the various motor firms had resulted in ingrained attitudes regarding management control and organization, and consequent weaknesses in a number of different, but inter-related, functions. One vital area was engineering, which, as is described in Chapter Seven of this thesis, can be held responsible for many of the quality problems of BL cars, and of Jaguar in particular, and contributed to the decline of both firms. As Whisler argues, the changed corporate and market environments of the 1960s and 1970s revealed the inherent weaknesses of British motor engineering. Here, an

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[84] *Ibid.* p225.
[85] *Ibid.* p219.
[86] Whisler, Timothy R., *Niche Products in the British Motor Industry: A History of MG and Triumph Sports Cars, 1945-1981.* Unpublished PhD thesis. London, London School of Economics, 1991.
[87] Whisler, Timothy R. *At the End of the Road. The Rise and Fall of Austin-Healey, MG, and Triumph Sports Cars.* (Greenwich and London, 1995); Whisler, Timothy R. *The British Motor Industry 1945-1994. A Case Study in Industrial Decline.* (Oxford, 1999).
[88] Whisler. *The British Motor Industry 1945-1994. p2.*

engineering elite of 'practical men' exercised a dominance over the technical matters of their firms which was every bit as powerful as the dominance over corporate issues exercised by the personal manager.[89]

Control of the organization by a dominant figure, who had worked his way up the hierarchy rather than being a formally trained manager, long continued in BMC/BL. Whisler relates that Leonard Lord, who was the first head of BMC, exercised considerable control over the subsidiaries, despite the significant independence enjoyed by their individual managements, and Donald Stokes, the first head of BL, perpetuated the tradition of personal control by assuming the positions of both Chairman and Managing Director, and had some twenty-one managers and directors reporting directly to him.[90] This perpetuation of the traditional personal management system by Stokes may be seen as both reflecting and reinforcing the existing management culture. A major problem was that the personal domination of all aspects of strategic and operational matters, with decisions being based on experience, conviction, and intuition, rather than on structured information and control systems, resulted in a management at all levels that lacked the organizational skills to construct and maintain a multidivisional organization.[91] The successful imposition by Stokes of a multidivisional structure required radical readjustments to the firm's corporate culture, but this was not attempted. Consequently, instead of establishing a managerial hierarchy, a duplicate parallel system emerged, with central staff usurping the decision-making responsibilities of plant and company managers, producing an organizational paralysis "as strategic and operational matters became intertwined and subjected to personal, divisional, and company rivalries".[92] This was to have a marked impact on Jaguar, as is shown in Chapter Three of this thesis.

It would, however, not be until BL came under the direction of Michael Edwardes in 1977 that the ingrained shopfloor attitudes, values, and beliefs would be challenged. Furthermore, the financial support provided by the government in the 1970s had obviated the need for radical reform, merely ensuring the deeper entrenchment of existing institutions. Edwardes's reform, however, was a radical redirection that required

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[89] *Ibid.* pp156-7.
[90] Whisler. *Niche Products in the British Motor Industry.* pp22, 44.
[91] Whisler. *British Motor Industry 1945-1994.* p89.
[92] *Idem.*

an exogenous force for its accomplishment, which was realised through the use of government-backed confrontation and consolidation. Even so, these reforms did not go far enough, for, as Whisler points out, Edwardes had misread the extent of the changes required, and, assuming that the prevailing management and engineering institutions, and their cultural values and logics of action, were sound, concentrated, therefore, on the shopfloor institutions.[93] The reform of managerial and engineering institutions had to wait until Graham Day assumed control of BL. These reforms were forced, albeit more gently than had been the case with the shopfloor reforms under Edwardes's management, precipitating BL into a new corporate direction through the collaboration with Honda[94], thus providing another example of an exogenous force being necessary to bring about radical change in corporate culture. It is of note that BL's "engineers, middle managers, and manufacturing supervisors resisted change as rigidly as labour had"[95], thus demonstrating that inflexible and ingrained attitudes had been pervasive throughout the firm.

1.5 Summary and Conclusions

The considerable, and remarkable, success achieved by Jaguar in the first half of the 1980s was matched by an equally remarkable downturn later in the decade. Whilst at the time much of this was explained in terms of macroeconomic factors, such as currency exchange rates, and microeconomic factors, such as Jaguar's rejuvenation and restructuring of its distribution network, this thesis suggests that the explanation is much more complex, and far more deep-rooted.

Certainly, at the time John Egan became responsible for the Jaguar business in 1980, the firm suffered the constraints of ingrained attitudes and beliefs which were the legacy of Jaguar's BL stewardship and of Lyons' autocratic rule, reflecting features prevalent throughout post-World War Two British industry in general, and the British-owned motor industry in particular. The failure of Egan to bring about a radical change in Jaguar's corporate culture was masked by a public relations campaign that was highly effective in promoting the image of a revitalised organisation that had broken out of its

[93] *Ibid.* pp410-11.
[94] *Ibid. p411.*
[95] *Idem.*

legacy of institutional constraints. However, the debilitating effects of this failure became apparent in the light of Jaguar's deteriorating position after 1986 and its subsequent acquisition by Ford. What became obvious was that Egan had not only failed to implement the recognised necessary reforms to overcome constraints resulting from ingrained shopfloor attitudes, but had failed to recognise that managerial and engineering attitudes and values were equally inflexible and pervasive and would constrain strategic change. To this extent, the Jaguar management may justly be accused of self-delusion, and the Egan era described as merely representing a continuance of an existing corporate culture. In exploring this theme, this thesis examines a range of functions in Jaguar, and considers the extent to which they suffered pervasive weaknesses, and the contribution made by each to Jaguar's overall problems.

CHAPTER TWO

METHODOLOGY AND LITERATURE REVIEW

2.1 Introduction

Ideally this thesis would have been based largely on material to be found in the Jaguar archives, plus data from a wide variety of primary and secondary sources, such as books, newspapers, and parliamentary papers, supplemented by information obtained from personal interviews with former executives of Ford or Jaguar, and other informed individuals, thus enabling reinterpretation of, and filling in of gaps and weaknesses in, the documents. This approach, termed triangulation, discussed in Sub-Section 2.2.1 below, is fairly standard in case study-based research such as that presented in this thesis. For example, in addition to the use of documentary evidence, Willman and Winch's 1980s study of the development of the BL Metro and labour relations at BL has a significant input from forty-nine interviews conducted with "BL managers, stewards and full-time officials".[1] Similarly, Whipp and Clark in their case study of the Rover SD1 project drew heavily on a large number of in-depth interviews with respondents "ranging from the senior management through to the track workers involved, as well as car industry experts".[2] However, in both these studies, respondents were identified by job function, rather than by name. Finally, it can be noted that Holden's book on Vauxhall Motors included a significant amount of information obtained from fifteen taped interviews with identified former Vauxhall employees to supplement documentary evidence.[3]

The expectation of being allowed access to the Jaguar archives was thought to be realistic since there had been positive reactions from individual executives at Ford, the then owners of Jaguar, to requests from the author for access to corporate records that related to a different ownership and management of the company, and which, in any case, were over twenty years old. Indeed, Lord Trotman, the former head of Ford worldwide,

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[1] Willman, Paul and Winch, Graham. *Innovation and Management Control. Labour Relations at BL Cars.* (Cambridge, 1985). pp192-3.
[2] Whipp, Richard and Clark, Peter. *Innovation and the Auto Industry.* (London, 1986). p16.
[3] Holden, Len. *Vauxhall Motors and the Luton Economy, 1900-2002.* (Woodbridge, 2003).

who retained an office and staff at the Ford world headquarters at Dearborn after his retirement, informed the author in February 2003 that Ford had always been sympathetic to requests from academic researchers for access to corporate records. However, after a lengthy procrastination involving several departments within Ford, Jaguar's Company Secretarial department informed the author in June 2006 that Ford had imposed a fifty year moratorium on access to Jaguar corporate records.[4] Unfortunately, since Lord Trotman had died in April 2005 the author could no longer take up the proffered offer of help from this source in regard to overcoming such obstacles. Roger Putnam, President of the Society of Motor Manufacturers and Traders (SMMT) and former Chairman of Ford of Britain, opined to the author in November 2006 that the reasons for Ford's denial of access was that it had become "over-sensitive" about the financial losses incurred by Jaguar, and given that Ford intended to divest Jaguar, it probably did not wish to see any investigation of the company. Interestingly, Jim Randle, Jaguar's former Engineering Director had much earlier warned the author that, "things had taken place at Jaguar of which few people were aware and that Ford would be unwilling to allow these to come into the open"[5], but refused to elucidate further, or to be interviewed for this study.

As a result of Ford's stance, this research was denied access to what had initially been thought of as the most important source of material on Jaguar. However, as the study progressed, it became apparent that the depth and quality of the information provided through interviews, whilst subject to the usual caveats, discussed in Sub-Sections 2.2.2 and 2.2.3 below, was an equally important primary source, compensating to a large degree for the absence of material from internal corporate records. As a result, the study became increasingly an exercise in oral history, the major aspects of which are discussed in Sub-Section 2.2.2. In any case, it became questionable as to what internal records might actually exist from the Egan era, and what might be the quality of the information contained therein. Indeed, Thompson warns of the dangers of accepting too readily the contents of such documents, since they represent "the social perception of facts"[6], and must be evaluated in this light.

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[4] e-mail to the author from Sue Pearson, Jaguar Assistant Company Secretary, 23 June 2006.
[5] Jim Randle. Telephone conversation with the author. January 2003.
[6] Thompson, Paul. *The Voice of the Past. Oral History.* Third Edition. (Oxford, 2000). p124

In this respect, Church, in commenting on the transcripts of interviews by Andrews and Brunner as part of the research for the writing of Lord Nuffield's official biography, opined that those transcripts revealed "a texture of managerial behaviour which, even when they exist, board minutes and memoranda rarely convey".[7] In regard to Jaguar, Turner noted that the Board minutes of BMH, formed in 1966 when Jaguar and BMC merged, were "curt to a degree".[8] Writing of more recent times, Daniels relates how Jaguar's engineering department had a periodic clear-out of its files, with what there is now available being due to personal copies taken home and kept by some of Jaguar's senior engineers, and to which Daniels had been given access.[9]

It is problematic as to what information contained in such documents as the minutes of the Model Progress Meetings, or other internal committee meetings, was repeated in Board or Executive Committee Minutes, or what internal reports and memoranda might have survived. It is even more problematic as to the usefulness to the researcher of any data contained in surviving Jaguar documents, given the apparent information deficiencies at the company, which may well reflect the institutional legacy referred to in Section 1.4 above, with experience, conviction, and intuition being more important than structured information. This was apparent from the interviews with John Grant, Mike Beasley, and John Edwards. Grant, Deputy Chairman of Jaguar Cars in the two years immediately following the acquisition by Ford, related that Ford had found that Jaguar had little market intelligence data, and little analysis capability[10], while Beasley, Egan's Manufacturing Director, confessed that he had not been aware fully of the quality issues because of a lack of data.[11] Edwards, Egan's Finance Director, revealed that they were not aware of Jaguar's deficiencies in engineering until the quality problems with the XJ40 became known following its US launch.[12] Further evidence of Jaguar's poor information recording is provided by Thorley who notes that Jaguar's factory records did not differentiate between the XJ40 2.9 litre and 3.2 litre Standard/Daimler, so that the

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[7] Church, Roy. "Deconstructing Nuffield: The Evolution of Managerial Culture in the British Motor Industry" in *The Economic History Review, New Series*, Volume 49, No 3 (August 1996). p564.
[8] Turner, Graham. *The Leyland Papers*. Second Edition. (London, 1973). Preface. px
[9] Daniels, Jeff. *Jaguar. The Engineering Story*. (Yeovil, 2004). pp6-7.
[10] John Grant. Interview with the author. January 1993. *Appendix* pp94-95.
[11] Mike Beasley. Interview with the author. February 2003. *Appendix* p7.
[12] John Edwards. Interview with the author. November 2002. *Appendix* p53.

overall production totals relate to both models.[13] However, it would appear that Jaguar was not unique in its failure to maintain accurate records. BMW, for example, in response to a request from the author stated that although they could provide total BMW sales per year they were unable to supply 1980s sales per annum figures for the BMW 7 Series, but were able to supply the 1980s production per annum figures which they believed to be "more or less the same amount" as the cars sold in each year.[14] BMW sales figures in certain of its main markets, however, were obtained through third-party sources such as the SMMT and *Automotive News*.

This present chapter explains the methodology of the research undertaken for this thesis, discusses the aptness, validity, and reliability of the primary and secondary sources used, and of the use of oral sources as a major research resource in this study. Comparisons and contrasts with, or critiques of, the literature in regard to specific functional areas, or theoretical frameworks, are made in various other chapters of this thesis, but in this chapter a prime objective is to provide a selective overview and critique of motor industry, or motor industry-related, literature that has been relevant to this study, focusing in particular on the methodological aspects to be found in existing literature, in order to gain an understanding of the extent to which such previous writing sheds light on the research questions posed in this thesis.

2.2 Methodology

This study originated from a conversation in 1992 between the author and John Grant, who at that time had only recently left Jaguar to join Lucas PLC as its Finance Director, regarding the nature of the problems at Jaguar which were being aired gradually by Ford at that time. Indeed, it had become increasingly obvious by the early 1990s that, despite Jaguar's earlier claims to the contrary, many of the institutional and organizational issues that had faced the company at the start of the Egan era, and which were the legacy of both BL and the Lyons era, had not been resolved by the Egan management. A particular object of this research was to determine, therefore, whether the explanation for the downturn in Jaguar's fortunes at the end of the 1980s lay in a prevalent cultural sclerosis,

[13] Thorley, Nigel. *Jaguar XJ40. Buying, enjoying, modifying.* (Yeovil, 2002). p154.
[14] e-mails to the author from BMW Business and Finance Communication. 26 September 2008; 29 September 2008.

rather than external factors such as currency exchange. Although some preliminary work was undertaken in 1993-94, the research had to be held in abeyance until 2002 when it was resumed as an academic study.

In relation to the methodology employed in this study, there are a number of aspects that are of note. These are the multimethod approach to data collection (triangulation), the characteristics of oral history, the interview techniques employed, the ethical issues involved, and the nature of the elite group of interviewees that contributed to the research. These aspects are discussed in the following sub-sections.

2.2.1 Triangulation

Although the term triangulation derives from land surveying, it has been adopted as a term covering a particular approach in academic research. Bryman notes that with regard to the latter usage, the most common meaning of the term refers to instances in which two or more research methods are utilised, the multimethod approach, so that the findings of one research method are bolstered by additional sources of information, although he also points out that a more appropriate use of the term is when researchers seek to check the validity of their findings by cross-checking them with information from other sources.[15]

As was stated in Section 2.1 above, from the outset, information about Jaguar, and its context within the British motor industry, was sought from published sources. These included Jaguar's Annual Reports and Accounts, other literature produced by Jaguar, press, academic and trade journals, and a considerable number of notes, and company handouts, from private and public meetings with the Jaguar management, retained by the author from the 1980s when he was an investment analyst advising the City audience on the merits, or otherwise, of investing in motor industry shares. Academic, and other journals, were searched by means of JSTOR, ProQuest, Business Source Premier, and ABI/INFORM, while the *Financial Times* and other newspapers were searched using NewsBook. In addition, *The Economist* and *Automotive News* were physically searched for information about Jaguar during the 1980s and early 1990s, the

[15] Bryman, Alan E. *Triangulation*. http://www.referenceworld.com/sage/socilascience/triangulation.pdf. Accessed 22 December 2008

former using its indexes, the latter, which does not produce an index, by perusing every edition.

It was intended that the triangulation approach would be adopted, with material obtained from these sources being supplemented by, and cross-checked against, information obtained from personal interviews with former Jaguar executives, or other informed individuals. However, with the refusal of Ford to permit access to the Jaguar archives of the period in question, these personal interviews became central to the study, and triangulation assumed an even greater importance in terms of the information thus obtained. In this regard, triangulation was necessary on two levels: between the interview information and the documentary sources, and between the individual interviews. Triangulation also offered the opportunity to ascertain the extent of personal bias by interviewees, a subject discussed in the next sub-section.

2.2.2 Oral History

Thompson, a pioneer of oral history, in seeking to define the term accepts that given by the *New Shorter Oxford English Dictionary*. This defines oral history as "tape-recorded historical information drawn from the speaker's personal knowledge; the use or interpretation of this as an academic subject".[16]

With access to the Jaguar corporate archives being denied to the author, the methodology of the research consequently became focused on oral history, although as mentioned in the previous sub-section the interview programme had always been regarded as an important part of the study. It is pertinent, therefore, to discuss the issues resulting from the use of such sources. While information gained by this method is little different from that obtained, for example, by Parliamentary Committees, whose findings and records of evidence received are often cited by historians, the use of the interview is a technique, as Tosh and Lang point out, that has not always found favour with those historians whose *modus operandi* is rooted in the "principle that contemporaneity is the prime requirement of historical sources".[17] Consequently, such scholars are disdainful of the element of retrospection often contained in oral testimonies. Indeed, oral evidence,

[16] Thompson. *op.cit.* Preface pxi.
[17] Tosh, John with Lang, Sean. *The Pursuit of History. Aims, methods and new directions in the study of modern history.* Fourth Edition. (Harlow, 2006). p312.

like that of many other sources of historical material, suffers bias of varying kinds, testimony being distorted by interviewees' subsequent experiences, by exposure to other sources, particularly the media, and by selective perception or recall being influenced by nostalgia or by a sense of grievance, or by poor memory. Examples of such bias undoubtedly exist in all the interviews undertaken for this research, discussed below, care having been taken by the author to be aware of such bias, and to triangulate to look for consistency within interviews and between interviewees, and to seek confirmation in other sources. However, as Thompson rightly notes, the interview, unlike the one-way communication of the written memoir, does offer the advantages of permitting cross-questioning and of obtaining elucidation.[18]

Bias can also result from the interview process itself, for, as Tosh and Lang argue, "in an interview each party is affected by the other", with the end-product conditioned by the interviewer's social position vis-à-vis the informant[19], and, according to Thompson, by the interviewer's own knowledge of the subject matter, informants being more forthcoming with knowledgeable interviewers.[20] However, it is likely that such bias was mitigated to some extent by the fact that the interviewees for this research constituted an elite group, discussed in the following section, who were confident in expressing their views, and in the interview situation a majority of them appearing anxious to both "go on the record" and to "set the record straight", even to the extent of being remarkably self-deprecating.

2.2.3 The Nature of the Elite Group contributing to the Research

Stephens defines an elite group as being composed of those in a position of power and raised social stature compared to the public at large.[21] Undoubtedly, the positions occupied, or previously occupied, by all the interviewees contributing to this research defines the group as being elite. The seventeen men interviewed, listed in the Appendix, had all enjoyed distinguished careers, and most had been directors or senior managers of

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[18] Thompson. *op.cit.* p121.
[19] Tosh and Lang. *op.cit.* p318.
[20] Thompson. *op.cit.* p223.
[21] Stephens, Neil. "Collecting Data from Elites and Ultra Elites: Telephone and Face-to-Face Interviews with Macroeconomists" in *Qualitative Research.* Volume 7, Number 2. May 2007. p205.

Jaguar or Ford during the time period covered by this study, or in the few years immediately following Jaguar's takeover by Ford, or had otherwise been closely connected with Jaguar. Seven had been directors or employees of Jaguar in the Egan era, four had worked for Ford and had become involved with Jaguar following the Ford takeover, three were retailers of Jaguar cars, and three were outsiders involved with Jaguar in relation to finance, journalism, and component supply. Unsurprisingly, given their backgrounds, all the interviewees, with one exception (Magan), were articulate and free speaking individuals, with considerable experience of public speaking, making presentations, and giving interviews, for example, to the media. Their recollections and views, therefore, whilst subject to the same limitations as all oral testimony, discussed in the previous section, can be regarded as being of some import. Indeed, in respect to a number of issues, such as the quality problems at Jaguar, these interviews are the only available first-hand account of the situation at Jaguar, and are likely to remain so until access to Jaguar's corporate records is finally permitted. Of the targeted potential interviewees, only one, Jim Randle, the former Engineering Director of Jaguar, refused to be interviewed.

Whilst this universe might have been extended further, it was felt that this was hardly warranted given the depth and breadth of the material obtained from those interviewed. In a number of cases, memory lapses or a request from the author for additional information resulted in interviews being supplemented by further contact by telephone and e-mail, and John Edwards, at his invitation, was interviewed a second time.

Unsurprisingly, some interviewees were more forthcoming than others in terms of both quantity and quality of information. In part this was a question of motivation, with interviewees such as Edwards, Grant, Orr-Ewing, and Michael Dale very obviously being attracted to the notion of bequeathing a more accurate version of Egan's Jaguar than already existed in the public domain, and being anxious to tell their own story. Trotman, Scheele, Beasley, and Blythe, whilst undoubtedly pleased to be able to talk about their contribution to the Jaguar story, appeared to be acting more from a genuine desire to be helpful. Memory was also an important factor here, with Magan, for example, suffering significant memory lapses, although it is problematic whether these were real or feigned. On the other hand, Grant, who was interviewed only shortly after he

had left Jaguar, Scheele, and Michael Dale appeared to have considerable, and fairly accurate, recall of facts and figures, as was apparent when these were triangulated with documentary sources.

Although there were a number of different perspectives offered by various interviewees, there was a remarkable degree of consistency in regard to a number of issues, and a considerable willingness to admit to their own failings. In particular, the XJ40 quality issue and its adverse impact on Jaguar, never previously in the public domain, was held unanimously to be a problem that resulted largely from engineering deficiencies, and the one time much lauded Quality Circles were not regarded as having been successful by those with whom the subject was raised. There was some obvious bias resulting from different respondents' views of Egan and his managing of Jaguar. Ainsworth, Orr-Ewing, and Michael Dale were extremely negative about Egan, and Blythe and Putnam were obviously positive, but there was general agreement about the triumph of style over substance during the Egan era, and the failure to address many deficient areas. In some instances opinion resulted from a feeling of grievance, as with Michael Dale, who blamed Egan, albeit with admitted hindsight, for many of Jaguar's problems and the bankruptcy of certain US automotive dealers, and in the case of Orr-Ewing against who Egan organised a successful *coup d'état*, resulting in Egan becoming the company's Chairman. Nostalgia also played a part, as was obvious in a number of comments made by both Putnam and Trotman. However, it was not always as clear-cut as this. Edwards, for example, was full of admiration for Egan's early achievements at Jaguar, seeing him as having saved the company, but was heavily critical of Egan's later performance. It was also noticeable that Grant, Blythe, and Trotman, being Ford executives who had been involved with the acquisition of Jaguar, were quite defensive of Ford's action here, unlike Scheele who only became involved with Jaguar some two years after the acquisition.

Finally, there is the issue of the amount of direct knowledge of situations and events which each interviewee had. Obviously, some interviewees related events of which they had no direct experience, but, for example, had learned of them through colleagues, and care has had to be exercised in regard to the degree of reliability that can be attributed to such "third party" evidence. Edwards opined that the Ford people such as

Grant could only relate what they discovered when Ford actually took over Jaguar, and could not speak about what was there, for example, in 1984/85. However, what is obvious from the interviews with Grant and Scheele was that they had a greater depth and breadth of knowledge of Jaguar, and its problems, over the entire Egan era, than many who were there at the time, and, not having been part of the highly compartmentalised Egan management team, consequently produced some of the most balanced and wide-ranging accounts.

2.2.4 Interview Techniques used in the Research

The interviews undertaken for this study were semi-structured qualitative interviews, whereby open-ended questions were used to guide and facilitate the interview process. This technique was adopted for a number of reasons, but its applicability was obvious from the start, given the nature of the group being interviewed. By definition, the interviewees had expert knowledge of the topics being discussed and, as pointed out by Stephens in regard to elite interviewing, consequently needed to be allowed freedom of expression to impart information, and opinions, in terms meaningful to themselves.[22] The author had an agenda of a list of topics to be discussed at each interview, varying according to the individual's role in the Jaguar story and, seeking interview triangulation, according to information obtained from previous interviews. The use of such an agenda generally ensured that the targeted areas were covered, but at the same time allowed the interviewees to introduce issues they considered to be important. In the majority of interviews the responses to questions or prompts were lengthy, detailed, and wide-ranging, yielding a considerable amount of useful information. Wynn-Williams has pointed out that, "By implication, the elite interview obviates the use of a structured approach because the interviewee is the expert and to restrict them to answering prepared questions would negate the benefits of interviewing them in the first place".[23] Thompson warns against the use of "box-ticking 'questionnaires' whose rigidly structured logical patterns so inhibit the memory that the 'respondent'....is reduced to monosyllabic or very

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[22] Stephens. *op.cit.* p205.

[23] Wynn-Williams, Michael S., *A Role for International Vertical Joint Ventures Within An Automobile Industry Paradigm.* Unpublished PhD thesis. Cardiff University, October 2007. p36.

short answers".[24] Indeed, more generally, Thompson observes in regard to oral history that "the less their testimony is shaped by the interviewer's questions, the better".[25]

Finally, mention must be made of the importance for the interview, and hence the amount of information forthcoming, of the rapport between researcher and interviewee. As related in Sub-Section 2.2.2, Thompson points out the importance of the researcher having thorough knowledge and understanding, and experience, of the subject under discussion.[26] This is particularly important in elite interviews where respondents expect questioning and discussion to be at a fairly sophisticated level. Stephens opines that wide differences in culture, experience, and age between researcher and respondent can act as barriers to a successful interview, and make it difficult for the researcher to be taken seriously.[27] In the case of this particular research, such barriers were not apparent, the author being of a similar age and social background to many of the interviewees. The interview process was enhanced also by the fact that the author was personally known to a number of the interviewees from his experience as a City motor industry analyst, and in a number of cases interviewees provided introductions to other potential interviewees, thus facilitating the interview process.

Each interview was tape recorded, with the full permission for which being obtained from each interviewee before the tape recorder was switched on, and also for the information thus acquired to be used in the writing of this thesis. Such recordings preserved the original content of each interview, and each was fully transcribed by the author, the process involved enabling the recovery of information that might have been highlighted at the time of the interview. Whenever possible, opinions expressed, and facts, were triangulated with more than one interviewee, and against published material, and vice versa. In a number of instances the author was able to follow up various issues, or pose further questions, by telephone or e-mail with different respondents. The transcripts of the interviews, edited for grammar, syntax, and comprehension, and with certain sensitive information (largely of a personal nature) deleted mainly at the request of respondents, after interview, are produced in the Appendix to this thesis.

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[24] Thompson. *op.cit.* p225.
[25] *Ibid.* p227.
[26] *Ibid.* pp241-3.
[27] Stephens. *op.cit.* p207.

2.2.5 Ethical Issues

Thompson has drawn attention to the ethical considerations in relation to interviewees[28], and throughout the interview process due regard was paid by the author to ethical issues. In requesting an interview the purpose of the research was stated, and reasons given for wanting a contribution from that particular person. At the meeting, this was reiterated, and the interviewee was asked his permission for the interview to be recorded, with the author undertaking to switch off the tape machine if at any time the interviewee wanted to "go off the record" and provide information for background only. However, this occurred only on a few occasions. Likewise, some interviewees, realising that they had perhaps been indiscreet with regard to certain former colleagues, later asked that certain comments be not used, and accordingly these were not included in the transcription by the author. Only after consent for recording the interview had been granted was the tape machine switched on, with the machine being in full view of the interviewee at all times, the exception, of course, being the two telephone interviews with respondents in the United States. Thus, the two main ethical issues of informed consent by the respondent, and confidentiality, were respected by the author. In regard to the first issue, Thompson opines that license to quote the respondent is implied by a consent to be interviewed[29], and it may be likewise argued that consent to have the interviewed taped reinforces such license. The confidentiality aspect relates to the information imparted, and to the identity of the respondents.

Despite the refusal of Ford to allow access to the Jaguar archives, commercial confidentiality could not be regarded as an issue given that the information sought at the time of most of the interviews related to some twenty years earlier, and this was appreciated by all the later interviewees. The exceptions were the two earliest respondents (Grant and Blythe), interviewed shortly after the events which are the subject of this thesis had taken place. Each respondent was informed prior to the interview that their contributions would be attributed to them, and none requested that their contributions be non-attributable. Even so, to demonstrate the veracity of the author's statements regarding consent and confidentiality, certain of the later interviewees were

[28] Thompson. *op.cit.* pp252-257.
[29] *Ibid.* p253.

asked to confirm these in writing, and copies of such confirmation have been placed in the *Appendix*.

2.3 Literature Review

The indigenous UK motor industry has spawned a huge number of books, unsurprisingly given its importance to the national economy, its rapid demise in the 1970s, and the interest it holds for motor enthusiasts in terms of the industry overall, or in regard to specific companies or marques. Such books may be broadly categorised in terms of those being of interest mainly to an academic audience, or of interest mainly to a more general audience, or of interest mainly to a specialist enthusiasts' audience. There are books in each of these three categories that have at least some relevance or usefulness to this study, and this present section provides a selective review, and critical examination, of those that have been found to have been of greatest relevance, focusing in particular on the methodological approach, where relevant, of each, and the existence, and nature, of any bias. At this point, however, it should be noted that, apart from Whisler, scholars have not given a great deal of consideration to the quality aspect of British cars, which, as will be indicated in Chapter Seven below, was the major factor determining Jaguar's fortunes in the second half of the 1980s, nor have they investigated the costs and causes of poor quality and reliability. Moreover, there have been no academic works that have focused exclusively on Jaguar, and whilst certain learned articles have used Jaguar as a case study, along with other companies[30], they, like the Whipp *et al* paper discussed in Section 1.2 above, were written mainly at a time when Jaguar was widely perceived as a success story, and merely repeated various, discrete, aspects of the Jaguar story as presented by the company. The usefulness of such articles as source material, therefore, is somewhat limited, and where something has been added it has been duly referenced in this thesis.

[30] For example: Dellheim, Charles. "The Historian and Corporate Culture" in *The Public Historian*, Volume 8, Number 2 (Spring 1986). pp9-22; Goodman, John. "Industrial relations and restructuring in manufacturing: Three case studies in the United Kingdom" in *International Labour Review*, Volume 128, Number 5 (1989). pp601-620. Salama, Alzira. "The use of an organisation's biography as a research method" in *Management Education and Development*, Volume 23, Issue 3 (Autumn 1992). pp225-233.

2.3.1 Books relating to the British Motor Industry.

The earliest academic works of interest to this study are those by Turner[31] and by Rhys.[32] Both offer a limited amount of useful material on Jaguar prior to 1970, as well as on the development of the British-owned motor sector. Although failing to identify sources, Turner's largely narrative work, which was primarily focused on the Leyland-BMH merger in 1968, may be regarded as highly authoritative since he had been allowed virtually unrestricted access to BL's corporate records, and to a number of the BL personnel concerned.[33] In contrast, Rhys's book is far more analytical, and wide-ranging, as might be expected given the addition of the rubric "An Economic Survey" to its title, but whilst it is undoubtedly a work of considerable authority, being much cited elsewhere, with, for example, some forty-seven references to it in Forman-Peck *et al*'s 1995 book[34], it suffers from being somewhat economical in the identification of sources. Nonetheless, it is particularly useful in identifying and evaluating the factors which had influenced the historic development of the British motor industry as a whole.

Much of what has been written in the past thirty years about the UK motor industry has focused on discussing, and attempting to provide explanations for, the demise of the British-owned motor industry, and BL in particular. Two notable exceptions are the case study-related works by Willman and Winch[35], and Whipp and Clark.[36] Both are based largely on primary material, using archival records such as Board minutes of BL and its antecedent companies, as well as drawing heavily on material obtained through in-depth interviews. In both studies, archival material was used to confirm or challenge oral testimony. Whipp and Clark's book is a fairly exhaustive study of BL engineering capabilities through an investigation of the SD1 project, and although not written from an institutionalist perspective it does draw attention to the failings of orthodox approaches to industrial change, and to the understanding that can be gained from studies at the institutional level, especially in regard to addressing the multiple

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[31] Turner. *op.cit.*
[32] Rhys, D G. *The Motor Industry. An Economic Survey.* (London, 1972).
[33] Turner. *op.cit.* Preface. ppix-x.
[34] Foreman-Peck, James, Bowden, Sue, and McKinlay, Alan. *The British Motor Industry.* (Manchester, 1995).
[35] Willman and Winch. *op.cit.*
[36] Whipp and Clark. *op.cit.*

structures within an enterprise.[37] Particularly interesting and useful is the book's brief history of The Rover Company, which provides clear evidence for the evolution of a strong cultural ethos within the company, in regard to both management and shop floor workers, especially as a result of the plurality of sub-cultures within these two groups.[38] Willman and Winch's book on the development of the BL Metro and labour relations within BL, written contemporaneously to that of Whipp and Clark, usefully identifies many of the pervasive weaknesses in BL, and their deep roots. In particular, Willman and Winch demonstrate the importance of industrial relations at BL, and of their reform, in marked contrast to Williams *et al* who argue that industrial relations were a relatively unimportant factor in BL's performance.[39]

Michael Edwardes' autobiographical account of his five-year stewardship of BL[40], published in 1983, the year after he left BL, was to be the precursor of a number of books about BL, each of which was to draw at least some material from it. As with all autobiographies, its contents are inherently subjective and need, therefore, to be treated with a considerable degree of circumspection in regard to its use as a record of events. Obviously, Edwardes has been selective in what he has included, and admits in the Preface that certain material of a private or sensitive nature has been purposefully omitted. It is perhaps for this reason that Edwardes makes very little comment about quality problems at BL, other than to acknowledge the existence of quality defects[41], and that many quality problems resulted from BL's shortage of 1,500 engineers.[42] Edwardes showed no such inhibitions in regard to Jaguar, his scathing comments about the quality and reliability of the cars at the time Egan was appointed to run the company being made at a time when these quality problems had been well acknowledged, and, apparently, resolved.

It is difficult to ascertain the extent to which Edwardes' book is an exercise in self-justification, aimed at answering the considerable criticism previously levied at him by the media, and by politicians, but it does provide useful insights, from the perspective

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[37] *Ibid.* pp13-14.
[38] *Ibid.* pp71-4.
[39] Williams, Karel; Williams, John; Thomas, Dennis. *Why are the British Bad at Manufacturing?* (London, 1983). pp252, 254-55.
[40] Edwardes, Michael. *Back from the Brink. An Apocalyptic Experience.* (London, 1983).
[41] *Ibid.* p64.
[42] *Ibid.* p65.

of management, into the problems facing BL and the reasons for Edwardes' consequent somewhat draconian actions in respect to reducing employee numbers, and replacing managers. Moreover, in highlighting the "ingrained attitudes" that were "widespread throughout the company"[43] it complements the work of Willman and Winch, and of Whipp and Clark, in demonstrating the strength of BL's cultural ethos. Additionally, and of direct relevance to this study, Edwardes identifies a number of pervasive weaknesses at Jaguar in regard to its shopfloor, engineering, and management structures.[44] These, however, were left to the Egan management to challenge, but which, as will be demonstrated in this thesis, it failed to do.

Also in 1983 was published the first of Williams *et al*'s three books which focus in part, or exclusively, on the problems at BL.[45] Despite their claim to academic rigour, these are works that generally lack credibility, for the reasons that will now be discussed. Even so, they do contribute to the debate surrounding the demise of the British-owned motor sector, if only in terms of their deliberately provocative and negativistic stance on many of the issues. Unfortunately, a number of their statements and arguments do not bear close scrutiny, and although only some of the defects have been noted by other academics, their work undoubtedly has stimulated debate, and further research. To take but two examples, their assertion that the managers BL recruited from Ford in the 1970s had little understanding of finance or of car manufacturing[46] is demonstrated by Whisler to lack validity[47], and Bowden *et al* have called into question their claims about the decision-making capabilities of, and the information available to, BL's senior managers.[48] Problematic issues such as these are discussed in the body of this thesis, but it is useful at this point to discuss some of the more general problems inherent

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[43] *Ibid.* p17.
[44] *Ibid.* p175.
[45] Williams, Karel; Williams, John; Thomas, Dennis. *Why are the British Bad at Manufacturing?* (London, 1983); Williams, Karel; Williams, John; Haslam, Colin. *The Breakdown of Austin Rover: a case study in the failure of business strategy and industrial policy.* (Leamington Spa, 1987); Williams, Karel; Haslam, Colin; Williams, John; Johal, Sukhdev; with Adcroft, Andy. *Cars. Analysis, History, Cases.* (Providence, 1994).
[46] Williams *et al. Cars.* p151.
[47] Whisler, Timothy R. *The British Motor Industry 1945-1994. A Case Study in Industrial Decline.* (Oxford, 1999). p107.
[48] Bowden, Sue, Foreman-Peck, James, and Richardson, Tom. "The Post-war Productivity Failure: Insights from Oxford (Cowley)". *Middlesex University Business School Discussion Paper No 85.* June, 2000. p8 and n33.

in Williams *et al*'s several books in order to demonstrate why such otherwise apparently major pieces of work have to be treated with a great deal of circumspection.

A major criticism that may be levelled is that all three books are strong on opinion, and extremely weak on the use of primary sources, relying heavily on printed material such as company Annual Reports and Accounts, which they refer to as "archive research"[49], and published statistics, as well as analysis of published work. Indeed, the motor industry parts of their first book, *Why are the British Bad at Manufacturing?* (published in 1983), draw quite heavily on the Report of the Central Policy Review Staff (hereafter CPRS).[50] In their second book, *The Breakdown of Austin Rover* (published in 1987), they proudly proclaim that their analysis had not benefited from access to internal company documents and was written "from published sources by a team of outsiders"[51], justifying this methodology on the grounds of their analysis being concerned with "abstract considerations" rather than individual personalities. But, their claim of not wishing "to personalise the issues"[52] might carry greater conviction if so much of their work was not devoted to attacking Edwardes personally, with them writing, for example, of management miscalculation being "predetermined by Sir Michael Edwardes personal style"[53], and basing a great deal of their analysis on material from his autobiography.

Moreover, Williams *et al*'s work offers no new evidence to support their arguments, the authors having disdained consulting archival or personal sources, unlike the writers of other works discussed in this present section. Indeed, the emphasis of Williams *et al* on the analysis and interpretation of published statistical and financial data, and failing to triangulate their findings by reference to qualitative archival data, suggests an unduly superficial approach, lacking in academic rigour. Finally in regard to sources used by Williams *et al*, their apparent unquestioning use of data from BL's Annual Reports and Accounts makes their consequent analysis somewhat suspect given, as discussed in Section 2.4.2 below, the extent to which companies at this time were able to manipulate data and conceal information in such documents.

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[49] Williams *et al*. *Cars*. p5.
[50] Central Policy Review Staff. (hereafter CPRS). *The Future of the British Car Industry*. (London, 1975).
[51] Williams *et al*. *Breakdown of Austin Rover*. p3.
[52] *Ibid*. p2.
[53] *Ibid*. p33.

Williams *et al*'s negativistic approach is also manifest in their dismissal of the various analytical and theoretical frameworks used to explain BL's demise, as was noted in Section 1.5 above. Unfortunately, whilst Williams *et al* may well be justified in rejecting some of these approaches, their refusal to accept any of them, and their failure to expound sound reasons for so doing, does not make for a convincing argument. Particular scorn is reserved by them for the contributions made by applied economics, which they accuse of producing deficient explanations as a result of its preoccupation with "the symptomatology of poor manufacturing performance"[54], and management science, accusing "the business-school professors" of merely using old techniques and themes "in an increasingly loose and rhetorical way"[55]. They are similarly dismissive or disparaging of the various arguments and studies relating to the subject of the motor industry, and its writers, or ignore a number of important texts altogether. Thus, the work of Rhys is ignored, having been first dismissed as being part of the outmoded "descriptive empirical" legacy of applied economics[56], Wormack *et al*'s book[57] is denigrated as "evangelical Japanolatory" and its conclusions as being "manifestly absurd"[58], Lewchuk's work in regard to British production methods is disdained for being "one dimensional thinking" resting on "historical misunderstanding"[59], and the CPRS findings are rejected as being "invalid and unfair" on the grounds of them being based on data supplied by BL.[60]

Finally, Williams *et al* may be fairly criticised for their inherent bias against BL's management, who they consistently blame for ineptitude and miscalculation, and for their consistent defence of labour's role. Hence, their use of headings such as "The workforce as scapegoats"[61], and their rejection of the adverse impact of strikes, and bad work practices, on BL's fortunes after 1968, seeing the importance of the role of these factors as having been exaggerated because of "management alibis and media

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[54] Williams *et al. Why are the British Bad at Manufacturing? p17.*
[55] Williams *et al. Cars.* p4.
[56] *Ibid.* p3.
[57] Womack, James P, Jones, Daniel T, & Roos, Daniel. *The Machine That Changed The World.* (New York, 1990).
[58] Williams *et al. Cars.* p4.
[59] *Ibid.* p149.
[60] Williams *et al. Why are the British Bad at Manufacturing?* p255.
[61] *Ibid.* p251.

stereotypes".[62] This was despite evidence from the CPRS that the strike record was much worse than that of BL's overseas competitors[63], and that the pace of work in UK car plants was slower than in European plants.[64] Whilst Williams *et al* acknowledge that BL did have a quality and reliability problem, they argue that its importance had been exaggerated since the basic problem was one of "external market limitations" which were "more fundamental than the poor quality of the company's product"[65], and which were not recognised by management, leading to the conclusion that BL was "killed by massive managerial miscalculation".[66] However, as other writers were to demonstrate subsequently, the issues were far from being as unambiguous as Williams *et al* sought to portray.

Two histories of the British motor industry were published in 1988, both written by journalists who were highly knowledgeable of the subject matter, and were aimed at the popular audience. Both offer good overviews of the development of the industry, and although they offer insights and information that have been useful in the research for this thesis, both suffer from being narrative, and fairly superficial, accounts. That produced by Wood[67] is the more academic in its style, with good referencing and a useful bibliography, although it does not attempt to explain the problems of the industry in relation to an analytical framework. The information and perspectives obtained from interviews with senior motor industry executives are particularly interesting and useful, although Wood does not always treat these with the appropriate degree of caution. For example, Wood unquestioningly accepts Egan's description of the dinner for US dealers in 1981, in which Egan portrays himself as playing the main role.[68] This is a version that is strongly contested by Dale[69] who had already published an account of the event that differed somewhat from that depicted by Egan.[70] Whilst representing a worthwhile

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[62] *Ibid.* p255.
[63] CPRS. pp98-9.
[64] *Ibid.* p83.
[65] Williams *et al. Breakdown of Austin Rover.* p72.
[66] Williams *et al. Why are the British Bad at Manufacturing? p253.*
[67] Wood, Jonathan. *Wheels of Misfortune: The Rise and Fall of the British Motor Industry.* (London, 1988).
[68] *Ibid.* pp232-3.
[69] Michael Dale. e-mail to the author. 7 August 2007. *Appendix* p44n52.
[70] Dale, Michael. "How we rebuilt Jaguar in the US". *Fortune.* 28 April 1986.p111.

contribution to the literature, Wood's book is hardly a balanced account, being written from a management perspective, and neglecting shopfloor standpoints.

This is not a deficiency apparent in Adeney's book.[71] Indeed, Adeney has produced a far more balanced account of the history of the British car industry, exploring the subject from both the management and worker perspectives. Moreover, Adeney provides far more examples than does Wood which may be used to demonstrate the prevalence of ingrained attitudes in both BL and Jaguar. Indeed, the prevalent inflexibility of BL's engineering function, and the consequent adverse impact on BL's fortunes, particularly as a result of a damaging disregard of ease of manufacture and product quality, is revealed in Adeney's accounts of the personal domination of Issigonis, BL's chief designer.[72] Even so, such revelations would later be ignored by Williams *et al* who viewed BL's engineering function as first rate, and designated Issigonis a "design star".[73] However, the rigidities of the engineering function's *modus operandi* that Jaguar inherited from both the Lyons era, and from BL, would be a major factor in Jaguar's demise in the late 1980s, as is detailed in Chapter Seven below.

Church's 1994 account[74] of the British motor industry during the one hundred years since its foundation offers a fairly comprehensive review of the literature of the subject and, apart from tracing the development of the industry, assesses the sufficiency of the various explanations that had been offered to explain its decline since the mid-1960s. He notes that these tended to emphasize "adverse government policies, obstructive and militant labour, or organizational and managerial weaknesses"[75] and concludes that although no single explanation by itself could adequately account for the demise of the industry, each was important in contributing to an understanding of the complexity of the topic. Of particular relevance to this thesis is that it is the first account of its kind to examine the contribution of Lewchuk's institutional approach, and whilst noting criticism of Lewchuk's work as being too deterministic, Church concludes that it is a model that affords some valuable insights into the industry's post-war history.[76] Although offering

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[71] Adeney, Martin. *The Motor Makers. The Turbulent History of Britain's Car Industry.* (London, 1988).
[72] *Ibid.* pp239-40.
[73] Williams *et al. Cars.* p137.
[74] Church, Roy. *The rise and decline of the British motor industry.* (Cambridge, 1994).
[75] *Ibid.* p120.
[76] *Idem.*

no new primary source material Church's work is particularly useful, being essentially a survey and analysis of the literature which, unlike that of Williams *et al*, is well-balanced and objective, and which, therefore, by means of clarifying the various issues does serve to move the debate forward.

Foreman-Peck *et al*'s 1995 account[77] is framed in the applied economics tradition so disparaged by Williams *et al*. Like Rhys's book of twenty-five years earlier it is concerned with identifying and evaluating the factors which had influenced the development of the British motor industry as a whole, but up-dating the analysis to include the decline of the British-owned sector, and the subsequent attempts to restore its fortunes. However, there is little mention of the quality issues that adversely impacted British cars, or of the problems resulting from design and engineering. Moreover, there is no attempt to root these various factors in a framework of theory. Nonetheless, the book is a useful conspectus, enhanced by the use of archival material and personal interviews.

Whisler's book[78], the most recent on the subject of the British motor industry overall, is a revisionist work, founded on detailed archival research, that seeks to reinterpret orthodox views on evidence, and events regarding the demise of the indigenous British motor industry. It is more limited in its scope than those of Rhys or Foreman-Peck *et al*, confining its coverage to the post-war years to 1994, but this more restricted time horizon is more than compensated for by the depth of coverage, based on detailed archival research, particularly of the companies concerned, interviews with some of the industry's leading personalities, and on existing literature, including his own previous work[79] which developed out of his PhD thesis.[80] Apart from the thoroughness of the research, Whisler's 1999 book is notable for its new approach to the subject, utilizing the theoretical framework of the institutional rigidity hypothesis of Elbaum and Lazonick to explain the development and decline of the indigenous British motor industry. In so doing, however, Whisler tends to confine his analysis to BL and its main post-war constituent companies such as BMC, with only occasional comparisons being made with

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[77] Foreman-Peck *et al*. *op.cit.*
[78] Whisler. *op.cit.*
[79] Whisler, Timothy R. *At the End of the Road. The Rise and Fall of Austin-Healey, MG, and Triumph Sports Cars.* (Greenwich and London, 1995).
[80] Whisler, Timothy R., *Niche Products in the British Motor Industry: A History of MG and Triumph Sports Cars, 1945-1981.* Unpublished PhD thesis. London, London School of Economics, 1991.

the foreign-owned UK motor companies such as Ford. Also, there is little mention of the more specialist parts of BL such as Jaguar. As stated in the Introduction, this thesis seeks in part to determine whether Whisler's findings apply equally to the experience of Jaguar in the 1980s. Whisler also was the first academic to give prominence to the adverse impact of the poor reliability and quality of British cars, as mentioned earlier, and the first writer to demonstrate the illusory nature of BL's reputation for engineering excellence. These themes, and others, are explored further in this thesis in relation to Jaguar.

2.3.2. Books Relating to Jaguar

Most of the books discussed in the previous section make at least some mention of Jaguar, but do not ascribe any great importance to the company. It may be supposed, with some justification, that the reason for this lack of scholarly attention lay in Jaguar's minor significance in terms of the industry overall. Indeed, despite the considerable publicity Jaguar generated in the 1980s as a result of its corporate revival, privatization, and acquisition by Ford, it played little part in the fortunes of the British motor industry overall, accounting for less than 2% of total UK car production volume in the 1970s.[81]

However, there is a voluminous literature dedicated to Jaguar, for the most part focusing on the development, history, and technical aspects of particular models produced by the company, with all the consequent bias that might be expected of works written by a small number of enthusiast, and prolific, motor journalists for an audience of motor enthusiasts. Indeed, the British Library catalogue shows that on the subject of Jaguar sixteen books have been written by Nigel Thorley, thirteen by Philip Porter, sixteen by Andrew Whyte, and nine by Paul Skilleter. In addition, a number of other writers have each produced a smaller number of books, or single titles, relating to Jaguar. Generally, the corporate histories produced by these writers suffer an obvious bias resulting from a significant input from Jaguar's PR department, and whilst providing interesting overviews and perspectives, all suffer from being mainly narrative, and fairly superficial, accounts which often fail to identify precise sources. However, whilst the writers' enthusiasm for the marque, and its history, has resulted in accounts of corporate

[81] SMMT. *The Motor Industry of Great Britain.* Various Issues.

Jaguar often amounting to little more than hagiographies, and thereby lacking credibility as sources, there are a number that have offered at least some material of use in this thesis.

The first "definitive history of Jaguar", with an introduction by Sir William Lyons, the founder of Jaguar, was produced by Whyte in 1980, with a second edition appearing in 1985 to mark the fifty-years anniversary of the launch of the first car to carry the name "Jaguar", and at a time when the newly privatized Jaguar company was at a high point.[82] The heavy bias towards Jaguar displayed in the book probably owes much to the fact that Whyte worked in public relations at Jaguar for some twenty years. This book was the first to focus equally on the history of Jaguar and the personalities involved as well as the cars themselves, and was based heavily on interviews with Jaguar executives and material from the Jaguar archives. Whilst it studiously avoids negative aspects of Jaguar's history such as industrial relations problems, it does include some useful perspectives, especially in regard to the development of a corporate ethos similar to that in other British motor companies, and quantitative data regarding deliveries of different models.

Thorley's account of Jaguar's history[83] is another heavily biased work, the production of which is stated to have been suggested by the Jaguar Daimler Heritage Trust to mark the fiftieth anniversary of the opening of Jaguar's Browns Lane factory. Whilst offering some useful insights regarding Jaguar's fortunes under Egan, and later, it is less detailed than Whyte's 1985 book, but does provide some material not covered in that earlier book and, like Whyte's work, avoids negative aspects such as industrial relations issues, omitting any mention of the problems experienced in this respect by the Egan management. Indeed, one of the major failings of the book is that Thorley seems to have accepted without question the releases and briefings of Jaguar's PR department. Thus, Thorley labels Egan as "Mr Jaguar", portrays the problems of the late 1980s as being due to the aftermath of the Stock Market crash, and adverse currency exchange, and limits mention of the XJ40's quality problems to one sentence.[84] It is of note that in

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[82] Whyte, Andrew. *Jaguar. The definitive history of a great British car.* Second Edition. (Wellingborough, 1985).
[83] Thorley, Nigel. *Jaguar in Coventry. Building the Legend.* (Derby, 2002).
[84] *Ibid.* p157.

his book devoted to the XJ40[85], produced in the same year, Thorley again makes little mention of the model's quality problems.

Porter's "Illustrated History"[86] is a work that focuses on the cars themselves, but with a text which, in contrast to most books of its type, makes a serious attempt to achieve a balanced, albeit limited, account of corporate Jaguar, and provides some interesting insights which few other writers have pursued. For example, Porter notes that after 1987 the press were starting to tarnish Jaguar's "new image" and questions whether "the vital reliability was as good as it was vaunted to be".[87] Unlike many other books in this genre, Porter briefly considers Ford's post-acquisition judgment on Jaguar, noting, for example, "too late, Ford realised it had bought a company with work practices that would have looked out of date in the 1970s".[88]

Dymock's "The Jaguar File"[89] is useful as a reference book, cataloguing every model, including racing cars, produced by Jaguar up to 1998, and is particularly informative regarding the XJ220 model. However, it suffers from certain uninformed comment regarding corporate Jaguar. For example, Dymock portrays Egan as having Jaguar take part in racing "in order to sell the company"[90], something Egan, and Edwards, vehemently deny.[91]

Thoms and Donnelly approach the Jaguar story from within the context of the motor car industry situated in Coventry since the 1890s, their book[92] providing useful comparisons between the various vehicle manufacturers located in the area. Although the book contains many factual errors, some perhaps merely typographical, and inaccurate statements, suggesting a lack of attention to detail by the writers, the referencing is extremely good. Unfortunately, the references show that the writers have relied to a very great extent on media coverage for their research material. Given that the media would have been pursuing its own selfish agenda, as discussed in the next section, and that

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[85] Thorley, Nigel. *Jaguar XJ40. Buying, enjoying, modifying.* (Yeovil, 2002).
[86] Porter, Philip. *Jaguar. The Complete Illustrated History.* Third Edition. (Yeovil, 1995).
[87] *Ibid.* p114.
[88] *Ibid.* p122.
[89] Dymock, Eric. *The Jaguar File.* (Sutton Vemy, 1998).
[90] *Ibid.* p316.
[91] John Egan. Interview with the author. October 2007. *Appendix* p75; John Edwards Interview. *Appendix* p62.
[92] Thoms, David, and Donnelly, Tom. *The Coventry Motor Industry: Birth to Renaissance?* (Aldershot, 2000).

many press articles and television broadcasts would often have been based on Jaguar's own press releases and press briefings, much of Thoms and Donnelly's narrative, whilst supplying some useful perspectives, has had to be viewed with considerable caution in terms of providing source material for this thesis. Again, much of the account of the Egan era up to 1987 is based on a lecture by Ken Edwards, Jaguar's Company Secretary, at Coventry Polytechnic in November 1987[93], relating, for example, how Jaguar resolved its quality problems in the period 1981-82[94], so is hardly without bias.

The latest specialist book on Jaguar, written by Jeff Daniels and based firmly on primary sources, is the only one to focus on an in-depth account of the history of Jaguar's product engineering function.[95] This is a work that has been especially useful to this thesis, with the, albeit somewhat limited, archival material recently discovered by Daniels confirming a number of the points regarding quality issues that the author had obtained previously for this thesis from personal interviews, and demonstrating the prevalent structural rigidity of the Jaguar engineering function. Unlike other books discussed in this present section, Daniels's work attempts objectivity, with, for example, admiration for the achievement of Egan "in 'talking up' Jaguar's reputation through sheer force of personality"[96] being balanced with statements from the Model Progress Meetings in 1986 regarding the extent of the defects of the XJ-S, and the inadequacies of the AJ6 2.9 litre engine. However, Daniels makes no mention of the quality problems of the XJ40, presumably because the records available to him did not extend beyond 1986.

Finally, an important work is that written by Underwood[97], which is the only book to focus on the management of Jaguar, particularly in the Egan era. Like most books on Jaguar, it is a narrative work, but unlike other books reviewed here suffers from the absence of both an index and a bibliography. Whilst the title suggests an inherent bias towards Egan, portraying him as a heroic figure, it contains sufficient criticisms of him, and of Jaguar, to counter any accusation of it being nothing other than hagiography. Much of the book is based on interviews with Jaguar personnel, ranging from directors to shop stewards, and the consequent lengthy quotations have been particularly useful to

[93] *Ibid.* p219.n46.
[94] *Ibid.* pp206-7.
[95] Daniels. *op.cit.*
[96] *Ibid.* p130.
[97] Underwood, John. *The Will to Win. John Egan and Jaguar.* (London, 1989).

this thesis, providing additional evidence or support for opinions and facts obtained from other sources. It is apparent, however, that Underwood had the full support and co-operation of Jaguar in his research, being given full access to relevant personnel, as was confirmed by Egan[98], and the book to some extent might be viewed as a product of the Jaguar PR department. Thus, although Underwood relates Egan's antipathy towards trades unions, there is no mention of the nature and extent of the industrial relations problems faced by Egan at Jaguar, or of the quality problems with the XJ40, Underwood accepting unquestioningly Jaguar's explanation of currency fluctuations being a major reason for the downturn in Jaguar's fortunes after 1987. This is not altogether surprising given that Underwood's research was undertaken at a time when Jaguar was once again experiencing problems, and needed to be portrayed in a favourable light, and was published in 1989 just after Ford had announced its intention of taking a fifteen per cent stake in Jaguar. Consequently, much of the opinion expressed by Underwood has had to be treated with a considerable degree of circumspection.

2.4 Other Printed Sources

In addition to published books, there were a number of other printed sources that were consulted for this thesis, all of which suffer weaknesses of various kinds, and the purpose of this current section is not only to describe their usefulness in terms of the information they provide, but also to demonstrate the nature and extent of the bias to which they are subject. Three main types of sources were utilised: newspapers and journals; material published by or on behalf of Jaguar, including press releases; official publications. These are reviewed in the sub-sections that follow.

2.4.1 Newspapers and Journals.

Whilst it has been stated that the object of the press is to "inform, influence, mislead or entertain"[99], its fundamental aim has to be that of increasing readership through the publication of particularly interesting, or sensationalist, articles. Given this, and the need to respond to, and represent, vested interests such as companies, politicians,

[98] John Egan Interview. *Appendix* p64.
[99] Tosh and Lang. *op.cit.* p66.

and trades unions, the considerable element of bias contained in press articles must be acknowledged. Over the course of the Egan era, and in the few years immediately following the Ford takeover, a considerable number of articles on Jaguar appeared in British newspapers and journals, individual articles of relevance being referenced as footnotes in this thesis. Certainly, the revival of Jaguar's fortunes in the first half of the 1980s, promoted both by Jaguar and by a government desperate for examples of economic revival, discussed in Section 1.2 above, gave rise to a great deal of press coverage, much it of merely regurgitating Jaguar's own press releases, or repeating points made in press briefings or personal interviews with the likes of Egan. There was also a great deal of press coverage that was prompted by Jaguar's declining fortunes after 1987, leading investigative journalists to look for explanations of why a success story had so quickly turned sour, and, in what might be regarded as retaliation for Jaguar's perceived earlier arrogance, allowing the press to indulge in a great deal of *schadenfreude*.

Whilst "factual" reports in the British press have proved to be helpful in collaborating evidence from other sources, many articles suffered from numerous errors of fact and ill-considered opinion, and generally add little to what is already known. Where such an article has added something, there is a reference to it in this thesis. Nonetheless articles in newspapers and magazines have been useful in indicating what had been placed in the public arena regarding Jaguar's problems. Interestingly, no journalist appeared to follow Kenneth Fleet's lead in ascribing Jaguar's falling US sales to quality problems rather than adverse currency movements.[100] This suggests that Jaguar's PR effort was very effective in ensuring that commercially damaging news, such as quality problems, was contained. In part this was achieved by maintaining good relationships with particular journalists who were then given access to exclusive stories if they refrained from writing what Jaguar regarded as being damaging or hostile accounts. Lorenz, who covered Jaguar for *The Sunday Telegraph* and then for *The Sunday Times,* explained that it was important to maintain good relationships with companies that he was writing about since, "if you got on with companies, but were still prepared to ask the

[100] *The Times*. 8 October 1988.

odd probing question, you had more chance of finding out earlier if anything was happening than if you were on the outside".[101]

With regard to the important US market, the research for this thesis has made much use of *Automotive News*, the highly influential weekly trade paper of the US motor industry. Here, the author undertook a manual search of all editions extending over fifteen years, from the late 1970s to the early 1990s. Although subject to the same sort of bias that was to be found in the British press, this publication is an important source in respect to the US market since it contained far more factual reports regarding Jaguar, especially in regard to its US sales volumes and its dealer network, and in reporting on, and providing comparisons with, Jaguar's US competitors. Also, it published summaries of the annual J D Power Customer Satisfaction Surveys which provided an indication of the extent of the reliability and quality problems experienced by US car owners. This was particularly useful since J D Power was unable to provide the author with access to the original reports or summaries since they had no publicly accessible archives.[102] *Automotive News* also published more in-depth, and more candid, interviews with Egan and other Jaguar executives than did the British press, and which have been useful in providing statements relating to what Jaguar promoted at the time as being its achievements and prospects. Undoubtedly, Jaguar made great efforts to have reports of its US revival, and various favourable news, featured in *Automotive News* since it was a publication that was aimed primarily at motor dealers, and which therefore represented an important marketing channel. However, the importance of the dealer audience also led to a certain degree of caution, or bias, by *Automotive News* in regard to what it published. Thus, whilst the quality problems of the XJ40 were apparent from the J D Power surveys reported, *Automotive News* did not publish any articles dedicated to these problems and the consequent impact on sales.

[101] Andrew Lorenz. Interview with the author. August 2007. *Appendix* p102.
[102] e-mail to the author from J D Power Corporate Communications. November 2006.

2.4.2 Material published by, or on behalf of, Jaguar

Of the Jaguar published documents, the most important were its Annual Report and Accounts, and the Offer for Sale document which was published ahead of Jaguar's listing on the London Stock Exchange in 1984 by Hill Samuel, BL's merchant bank, and which contained significant factual information about the Jaguar business. Notwithstanding the usefulness of such information, these are documents that have to be treated with a significant amount of caution for the reasons that will be made clear in this section.

As a limited liability company, Jaguar had a legal requirement to place in the public arena certain information about its activities. The Companies Acts of 1981 and 1985 required that every limited liability company issued an Annual Report and Accounts, which had to be filed with the Registrar of Companies. This had to contain a directors' report, a profit and loss account, a balance sheet, and an auditors report. The London Stock Exchange listing, which it obtained in August 1984, demanded further information disclosure, including, in addition to the Annual Report and Accounts, the requirement for the publication of a half-yearly, or Interim, Report at the end of the first six months of every financial year. This required only profit-related information, together with an explanatory statement on the company's performance during the half year. It was also required that a company publish a Preliminary profit announcement prior to the publication of the Annual Report and Accounts. This was to ensure that the results for the year were made public as soon as possible to prevent insider dealing. The Stock Exchange regulations also required that the Annual Report and Accounts provided significantly more information that that required by the Companies Acts. Such requirements included: a statement by the directors regarding the reasons for any significant departures from applicable standard accounting practices (as codified in the twenty-five Statements of Accounting Practice issued by the Accounting Standards Board); a geographic analysis of net turnover and of the contribution to trading results from those trading operations carried on outside the UK and Ireland; a statement of interest capitalised during the year.

The Offer for Sale document contained significant factual information about the Jaguar business, the accuracy of which was given as being the responsibility of the Jaguar Directors, and of BLMC and BL. However, it has to be noted that due to the

absorption of Jaguar by BL Cars, separate accounting records for Jaguar were not maintained from 1972 to 1980, with much of the information provided in the Offer for Sale document relating to 1980 being "best estimate". Subsequent accounting changes at BL Cars enabled Jaguar's costs and revenues for 1981 and 1982 to be compiled from the accounting records of BL Cars, and the Offer for Sale document provides greater exactitude in respect of these two years. It was not until 1983, however, that separate audited accounts were prepared for the Jaguar Group.[103]

Whilst these documents provide useful information about the performance of Jaguar from 1980 onwards, particularly in terms of quantifying its trading performance, and in enabling a comparative analysis, there was much that was not disclosed. This is not too surprising in the decade before concern over the need for greater transparency in financial reporting would result in the 1992 Cadbury Committee "Code of Best Practice"[104], discussed in Sub-Section 4.3.3 below. Indeed, the rules of disclosure, particularly at this time, were such that companies in general had plenty of leeway for concealment of information, through deliberate omission or obfuscation, in order to veil particular problems, or to deny information that might be of use to competitors. As will be demonstrated in Chapter Eight below, Jaguar's Annual Reports concealed certain aspects of cost, particularly in regard to the impact of warranties on profit, and an understanding of Jaguar's actual financial performance has required reference to information obtained elsewhere. In regard to revenue, the Accounts define vehicle revenue as being from wholesales (that is, sales to dealers and distributors), thus matching sales with revenue, but elsewhere discusses sales only in terms of retail sales. Even so, in a decade which is renowned for takeovers and creative accounting, giving rise to such pronouncements as "Every company in this country is fiddling its profits"[105], Jaguar's accounting policies are notable for their relative conservatism.

On the other hand, the Directors Review of Operations sections of Jaguar's Annual Reports, written by its Corporate Communications Department[106], were used unashamedly as propaganda instruments to foster, and enhance, the illusion that Jaguar

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[103] Jaguar Offer for Sale document, 1984. p19.
[104] Pendlebury, Maurice, and Groves, Roger. *Company Accounts. Analysis, Interpretation and Understanding.* (London, 1994). p3.
[105] Griffiths, Ian. *Creative Accounting.* (London, 1986) p1.
[106] e-mail to the author from John Edwards. 18 July 2007.

was a company that had resolved its many problems, particularly in regard to quality. Obviously, no company will seek to give prominence to its problem areas, unless it has little choice, as has been shown to have been the case in the early days of the Egan management with regard to Jaguar's quality problems. Having declared that it had resolved its quality and reliability issues, to have given prominence to a recurrence of such problems in its Annual Reports would have been commercially damaging for Jaguar. Even so, there is little doubt that Jaguar used its Annual Reports to bolster its image and its reputation, both by omission, and through focusing on what it wished to be seen as positive aspects, such as its Quality Circles, discussed further in Section 6.9 below. Given that Quality Circles, and similar initiatives by Jaguar, have been acknowledged subsequently to have not produced anything like the positive results that were attributed to them, it has to be questioned as to what extent Jaguar believed its own statements about them; that is, whether the Jaguar management suffered self-delusion in this regard.

It is also notable, and unhelpful to the analyst, that the Directors Reviews of Operations, unlike the presentation of the Accounts themselves, suffer a lack of consistency in the information presented, and that certain information does not correspond with that presented in the Accounts. For example, in the Directors Reviews, purchasing costs are given only in the 1985, 1986, and 1987 Reports, and vehicle sales are discussed in terms of retail sales, which do not necessarily correspond with wholesales mentioned in the Accounts proper. It is of note that there was no legal requirement regarding exactly what information was to be presented in the Directors' Reviews, and the Report and Accounts for 1989 onwards do not show the same amount of detail in the Directors Review of Operations as do the glossy documents produced for the shareholding public in respect of the period 1984 to 1988. Although Jaguar was a public company in 1989, by the time the results for that year were filed with Companies House, Jaguar was wholly-owned by Ford which reverted to providing only that information that was required by law.

Supplementing the sometimes sketchy information provided in the Annual Reports and Accounts are the contemporary printed notes produced by Jaguar for distribution to Press and City audiences during regular briefings to them, and the

consequent investment circulars produced by City analysts. Jaguar's briefing notes here had similar aims to their Annual Reports and Accounts, and consequently, as with other company-produced documents, have limited credibility as source documents. Similarly, whilst investment circulars have a usefulness in terms of providing factual information about Jaguar, its markets, and its competitors, their main purpose was to provide a basis, or an argument, for investors to trade in Jaguar shares, and many suffer from being merely a regurgitation of company financial results releases. Stockbrokers also often produced lengthy reviews on companies or industrial sectors usually ahead of, and to support, corporate activity such as Rights Issues, or acquisitions, and whilst containing useful factual information, the often highly positive opinions expressed in such documents merit considerable circumspection.[107]

2.4.3 Official Publications

The reports of Parliamentary Committees and governmental agencies have proved to be especially fruitful in terms of providing factual information about the development and operation of the British motor industry, and the issues impacting it. But all such reports are subject to various degrees of bias. Indeed, a considerable degree of circumspection has been required in regard to the opinions stated in them, and to the responses of witnesses to criticism, since many such Committees, by their very nature, are politically motivated, acting as vehicles for vested interests, or otherwise are fixed on pursuing their own selfish agendas. Although written evidence was often submitted by witnesses in advance, the main method of obtaining information is by direct questioning of witnesses in open session. Thus, the quality of information obtained will to a large degree depend on the quality of the questions asked, and the way in which the sessions are conducted, with leading or barbed questions often being employed to elicit responses that conform to committee members' pre-conceived views. On the other hand, witnesses who seek to promote a particular view, or are highly defensive of their views and actions, tend to make statements that are disingenuous, obfuscatory, or simply untrue.

For example, when appearing before the Trade and Industry Committee in May 1984, Ray Horrocks, Group Chief Executive Cars of BL, was subjected to some

[107] Golding, Tony. *The City: inside the great expectation machine.* (London, 2003). p59

fairly hostile questioning over the planned flotation of Jaguar[108], the Committee's negative stance on the issue being evident from its later statement that "no matter how successful the sale of Jaguar, its disposal is not in the long term best interest of BL".[109] Again, Horrocks informed the Select Committee that it was the BL Board who had taken the decision to privatise Jaguar[110], a statement which was contradicted by Hamish Orr-Ewing, Jaguar's Chairman at the time of privatisation, who opined that privatisation was forced on BL by the government[111], a view supported by Edwards, Jaguar's Finance Director.[112] As a final example here, Egan's evidence to the Trade and Industry Select Committee in November 1989 is of note.[113] In his evidence, Egan informed the Committee, without prompting, that the negotiations with General Motors had been conducted "in very good spirit"[114], which was not Edwards' recollection. Indeed, Edwards described the meetings with General Motors as "nasty" and "aggressive".[115] Also, Egan informed the Committee that, "we were always conscious of our fiduciary duty to the shareholders, at no time did we feel we wanted to do something that was against the interests of our shareholders"[116], but a different view was expressed by Edwards who opined that the deal that Egan had wanted to do with General Motors in 1989 would have been "a disaster for the [Jaguar] shareholders".[117]

There have been a number of Parliamentary Committee reports consulted in this research, all of which are listed in the Bibliography. The two most useful, however, have been the Fourteenth Report from the Expenditure Committee on the Motor Vehicle Industry, together with the minutes of evidence (hereafter Fourteenth Report)[118], and the

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[108] "Trade and Industry Select Committee. BL plc. Third Report, together with the proceedings of the Committee relating to the Report and the Minutes of Evidence". (hereafter Third Report). *Parliamentary Papers*. 1983-84. vol XL (**HC 490**). Q47-96.

[109] "Trade and Industry Select Committee. BL plc. Fourth Special Report. 30 July 1984" *Parliamentary Papers*. 1983-84. vol XLVI (**HC 607**). Para 3.

[110] Third Report. Q74.

[111] Hamish Orr-Ewing. Interview with the author. November 2002. *Appendix* p113.

[112] John Edwards Interview. *Appendix* p52.

[113] "Trade and Industry Select Committee: Special Shares and the Department of Trade and Industry. Minutes of Evidence 13 December 1989 (Printed with HC 617-i 1988/89)". (Hereafter Special Shares Committee*). Parliamentary Papers*. 1989-90. vol XIV. (**HC 90-i**). Q1-101.

[114] *Ibid.* Q55.

[115] John Edwards Interview. *Appendix* p54.

[116] Special Shares Committee. Q42.

[117] John Edwards Interview. *Appendix* p56.

[118] "Motor Vehicle Industry. Fourteenth Report, with Evidence taken before the Trade and Industry Sub-Committee, and Appendices". *Parliamentary Papers*. 1974-75. vol XXV (**617**).

minutes of evidence from the Trade and Industry Select Committee report on Special Shares (hereafter Special Shares Committee).[119] The investigation resulting in the Fourteenth Report emanated from the prospect of government investment in BL, with the Committee interviewing over two hundred witnesses, ranging from senior executives of motor companies to trades union officials, as well as receiving written evidence. Notwithstanding the caveats stated above about the bias associated with such investigations and reports, the Fourteenth Report provides a comprehensive review of the British motor industry in 1975, providing useful insights, facts, and opinions, about aspects such as manufacturing, distribution, industrial relations, quality issues, and the structure of the industry in general. The Special Shares Committee investigation, on the other hand, was far narrower, being concerned with the special shares ("Golden Share") held by the government in formerly government-owned, and subsequently privatized, companies, which prevented such companies being taken over without government acquiescence. It is particularly interesting to the research for this thesis since it contains lengthy evidence from Egan, taken on 8 November 1989, shortly after the Jaguar Board had agreed the Ford takeover, in respect to the events that led up to that takeover. As has been shown earlier, there were a number of statements made by Egan to the Committee which were later shown to be somewhat disingenuous. Nonetheless, it is a document that provides a valuable, and unique, if somewhat limited, account of the final chapter in Jaguar's history as an independent company.

Contemporaneously with the Fourteenth Report investigation, the CPRS, an independent government think-tank, undertook its own investigation, at the behest of government ministers, into the whole British motor car industry, not just BL, the report being published on 16 December 1975. Assisted by the management consultants McKinsey and Company, the CPRS visited various manufacturing plants, interviewed numerous people within the industry, or connected with it, and had access to numerous unpublished papers, although to avoid duplication the study drew on the factual information published in the Fourteenth Report.[120] Unfortunately, the CPRS report does not identify its interviewees or many of the companies cited when making comparisons.

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[119] Special Shares Committee.
[120] CPRS. pp1-4.

This not only limits the report's usefulness as a source for this thesis, but also makes it difficult to accept the Williams *et al* criticism, cited in Sub-Section 2.3.1 above, of the report's findings being "invalid and unfair" on the grounds of them being based on data supplied by BL. Also, the report is incomplete since certain information, for example, relating to product quality, has been deleted for "reasons of commercial confidentiality".[121] Notwithstanding this, the CPRS report is far more analytical, critical, and outspoken than the much longer Fourteenth Report, to which it is thus complementary, providing information, well illustrated with tables and charts, on the structure of the industry, the manufacturing process, and comparisons between British car manufacturers over a wide range of factors such as distribution systems and labour relations. Apart from factual information on the industry, the report provides useful examples of the existence of institutional rigidities in the industry, citing the major problems resulting from "entrenched attitudes on both sides of industry".[122]

2.5 Summary and Conclusions

The methodology employed in this research is similar to that found in other case-study orientated academic studies, with material being obtained from a variety of primary and secondary sources. It was unfortunate that access to Jaguar's internal corporate records was refused, thereby denying the use of these in challenging or supporting information obtained from other sources. However, it would appear that the depth and quality of the information provided by the available sources, particularly from oral testimony, has been such as to render the absence of such archival material as being not that significant in relation to the arguments and conclusions of this thesis. Naturally this requires further investigation, but is a task that has to await the opening of Jaguar's corporate records to researchers. It remains to be seen whether this may not be for another twenty or so years, in accordance with the stated Ford pronouncement, or whether Tata Motors, Jaguar's new owner, will be prepared to end the existing moratorium, assuming, of course, that the Jaguar archives have been transferred to them.

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[121] *Ibid.* p68.
[122] *Ibid.* p120.

In addressing the sources utilised in this research, attention has been drawn in this present chapter to the bias evident in the various sources, the object being to demonstrate recognition of the existence of such bias, and the need to test the reliability of the testimony through the process of triangulation. Even when there is very obvious bias, such as is to be found in what have been described above as being hagiographies, this in itself has been revealing of the usefulness of the source material in relation to its reliability, and the need to confirm or challenge such information by reference to other sources. This has been undertaken throughout this thesis, particularly in regard to oral testimony.

Oral testimony has been especially important to this study and, as has been pointed out, the interviews recorded in this thesis are the only available first-hand account of the situation at Jaguar, particularly regarding the institutional sclerosis suffered by the engineering function and the quality problems, and are likely to remain so until access to Jaguar's corporate records is finally permitted. Bias undoubtedly is evidenced in all the interviews undertaken in this research, as detailed by this chapter, and due account has been taken of this.

Finally, this present chapter, in reviewing the relevant literature, has shown that whilst there are a considerable number of books written about Jaguar, most have been written for an audience of motor enthusiasts, and have focused on the cars themselves, rather than the company and its management, other than *en passant*. Such works tend to be aimed at reinforcing enthusiasts' existing extremely positive beliefs about the Jaguar marque, and eschew discussion of Jaguar's major failings in quality and reliability, even when such failings are recognised by the occasional one-sentence mention. There have been no academic works that have focused exclusively on Jaguar, although a small number of scholarly articles have used Jaguar, along with other companies, as a case study. Whisler, who has been the only academic to have given prominence to the adverse impact of poor reliability and quality of British cars, and the myth of British engineering excellence, ignores Jaguar when expounding these themes. This thesis, therefore, fills an obvious gap in the historiography of the British motor industry in general, and Jaguar in particular.

The problem of bias in source material will be demonstrated further in the next chapter which, in examining the development of the Jaguar company in the period before Egan assumed control, has relied heavily on secondary sources.

CHAPTER THREE

THE DEVELOPMENT OF A CORPORATE CULTURE AT JAGUAR - THE LYONS ERA, AND THE BL STEWARDSHIP

3.1 Introduction

Although a comparatively late entrant to the British motor industry, Jaguar's origins and subsequent development had much in common with those of other British motor manufacturers. Foreman-Peck *et al* point out that many of Britain's motor manufacturers had started out as cycle manufacturers, and had moved into motor vehicle manufacturing, or, in the case of Triumph, into motorcycle manufacturing.[1] Consequently, as was indicated in Chapter One, with its origins in the skilled craft-based engineering and coach building industries, it was not surprising that the infant British motor industry resembled the atomistic economic organization of those industries.

It may be argued, as do Adeney[2] and Foreman-Peck *et al*[3] in varying degrees, that World War Two represented a watershed for the motor industry in general in that the post-war changes in important aspects such as demand patterns, industrial relations, government involvement, and the pace of technological advance represented a discontinuity, rather than being part of a continuous process of evolution. This resulted in a radical shift in shop floor culture and attitudes which became entrenched in the indigenous industry. Such change led to the sector's demise in the 1970s, since "management and labour were unable and unwilling to adapt their corporate strategies, institutions, and beliefs to the changing demands of the post-war environment".[4]

Whilst such post-war problems applied equally to all firms in the industry, it does not follow that the outcome should have been similar for them all for, as Whisler notes, in the thirty years following World War Two, the industry's management had

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[1] Foreman-Peck, James, Bowden, Sue, and McKinlay, Alan. *The British Motor Industry*. (Manchester, 1995). p11.
[2] Adeney, Martin. *The Motor Makers. The Turbulent History of Britain's Car Industry*. (London, 1988). p179.
[3] Foreman-Peck *et al*, *op.cit*. p92.
[4] Whisler, Timothy R. *The British Motor Industry 1945-1994. A Case Study in Industrial Decline*. (Oxford, 1999). p401.

plenty of opportunities to institute cultural change.[5] This leads to the question of whether such opportunities existed at Jaguar and, if so, then why were they not exploited. At the time of Jaguar's second stock market flotation in 1984 it was fashionable to blame BL for the problems that had nearly driven Jaguar into extinction at the end of the 1970s. Certainly, mismanagement and underinvestment by BL exacerbated the problems at Jaguar, but there is little doubt that many of these were already ingrained, being a legacy of the Lyons' era, as will be revealed in the following sections.

This present chapter thus explores the history of Jaguar from its founding in 1922 to the appointment of Egan in 1980, examining the various factors that led to the development of the institutional structures that were entrenched within the corporate culture when Egan assumed control of the company. In particular it looks at the problems resulting from the under-investment during the Lyons era, the impact of Lyons' autocratic management style, and the resultant management inflexibility, and its effect on labour relations. Furthermore, it examines the issue of poor quality and reliability which was a problem that Lyons never resolved, and which was the fundamental cause of Jaguar's deteriorating situation in the late 1980s.

3.2 From Sidecars to Aircraft Components 1922-1945

Founded in 1922 in Blackpool as a partnership between William Lyons and William Walmsley, the business that was to evolve into Jaguar began as "The Swallow Sidecar Company", manufacturing and selling luxury sidecars for motorcycles. In common with other early motor-industry, or motor-related, businesses it was an activity that was heavily dependent on craft skills, each Swallow sidecar being hand built around a wood frame by skilled trimmers, upholsterers, tinsmiths, and other such craftsmen[6], on chassis supplied by outside manufacturers. The production method employed was recognisably that of Lewchuk's low-productivity, labour-intensive "British system", described in Section 1.4 above, with shop floor workers being paid by the piece rate system, and who consequently enjoyed considerable autonomy over the work process. Thus, from the firm's origins there was in place a shop floor institutional structure that reflected

[5] *Ibid.* p33.

[6] Whyte, Andrew. *Jaguar. The definitive history of a great British car.* Second Edition. (Wellingborough, 1985). pp24, 37.

traditional behaviour and expectations in place in British industry generally. The firm's first employees brought with them a set of values and beliefs from their previous firms, and these continued to evolve and would become progressively more self-reinforcing in the 1920s and 1930s as the result of the growth and continuity that marked the company's progress in this period.

The success of the sidecar business was evident from the fact that production reached 100 units a week in 1927[7], and that the business continued throughout the 1930s and into World War Two when, over the course of the conflict, it produced over 10,000 sidecars for army use. After the war, however, the sidecar operation was sold to the Helliwell Group.[8] In essence the *raison d'être* of the firm was that of coach building, that is, the manufacture and fitting of hand-built vehicle bodies and trim onto chassis supplied by other companies, and was recognised as such by the two partners when, in 1926, the company's name was changed to "The Swallow Sidecar and Coach Building Company".[9] Having started making new hoods and side curtains for motor cars it was only a short step to the building of motor cars themselves. So, in 1927 the company started constructing Swallow bodies onto Austin 7 chassis, the car thus produced being called the Austin-Swallow, and sold initially through some of the sidecar distributors that the company had started appointing following Swallow's appearance at the 1923 Motorcycle Show in London.[10] As King has noted, there was an "immense public demand" for the more stylish body designs of the type produced by Swallow, and other specialist body builders, than the "normal staid, solid touring cars of the motor manufacturers".[11] The success of the Austin-Swallow led to some large orders, notably one for 500 cars from Henlys, the large motor distributor in the south of England, to be delivered at the rate of twenty cars per week. However, the production constraint of two cars per week, and the need for a greater number of skilled craftsmen, resulted in the company relocating to Foleshill in Coventry in November 1928.

Following the move to Coventry, other models were introduced, built on chassis and engines bought from Alvis, Fiat, Swift, Wolseley, and Standard, with total

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[7] *Ibid.* p42.
[8] Thorley, Nigel. *Jaguar in Coventry. Building the Legend.* (Derby, 2002). pp41, 47.
[9] Whyte. *op.cit.* p37.
[10] *Ibid.* p29.
[11] King, Peter. *The Motor Men. Pioneers of the British Car Industry.* (London, 1989). p163.

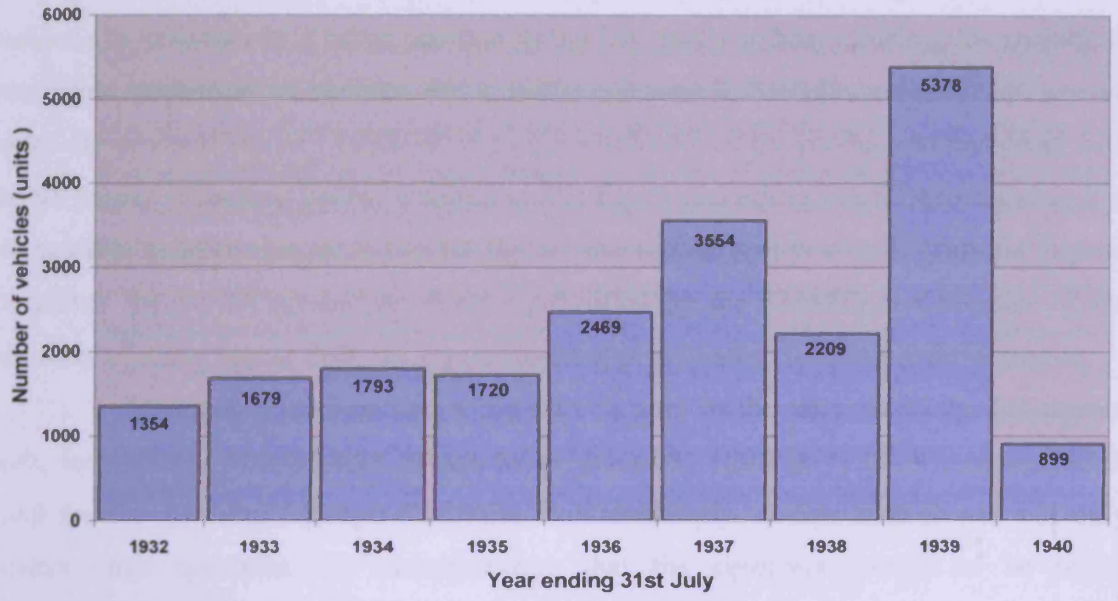
production, including the Austin-Swallow, increasing from 12 to 40 cars per week by the end of 1929[12], although Whyte suggests that production of 40 cars per week was not a regular occurrence at that time.[13] Such low volumes enabled the "British system" to continue to be implemented by the company at Coventry, the cars being hand-built by skilled craftsmen who crafted bonnets and wings on trestles, and grafted steel and alloy panels onto an ash frame mounted on a jig, such processes continuing to be utilised by the company until 1937.[14] However, as Thorley observes, the negative reaction of new workers taken on in Coventry towards the company's piece rate system gave rise to its first industrial relations dispute.[15] The principle and practice of piece rate payments had been well-established in the British engineering and motor industries by this time[16], and the fact that Jaguar experienced hostility in this regard indicates that the problem lay with Jaguar's own basis for determining payment rather than with piece rate payments *per se*. However, the piece rate system was finally accepted within a fairly short space of time, possibly because the employees lacked an alternative course of action, particularly given the high unemployment rates in Coventry at the time.[17] But this incident demonstrated the inflexibility of the management, with the partners refusing to agree to the new workers' demands, a stance that perhaps was directed and reinforced by the fact that at this very early stage in the company's history the partners did not have individual fortunes at risk as a result of industrial conflict. However, some other shopfloor employees at this time proved more inflexible, with a dispute in the company's sawmill over union membership resulting in the first withdrawal of labour, and the replacement of those workers involved.[18]

In 1931 the company, in another natural progression, moved into car production under its own brand name, an objective that had been given impetus by the experience that the chassis utilised to date had inhibited body design. Key to this development was the relationship that was built with the Standard Motor Company which agreed to supply engines and completed chassis, the chassis frame having been designed

[12] Thorley. *op.cit.* p22.
[13] Whyte. *op.cit.* p192.
[14] Thorley. *op.cit.* p34.
[15] *Ibid.* p22.
[16] Foreman-Peck *et al. op.cit.* pp30, 62.
[17] Thorley. *op.cit.* p21.
[18] *Ibid.* p22.

by Swallow and manufactured by Rubery Owen, and which formed the basis for a new car, designated the SS. The two basic models, the SS1 and the SS2, and their thirteen variants were extremely successful, as can be seen from Figure 3.1. However, in what might be seen as a forewarning for the Jaguar of the 1980s, the original SS1 suffered

Figure 3.1: SS Cars Total Deliveries, August 1931 to July 1940



Source: Whyte. p210

Note: Deliveries of Swallow bodied cars amounted to 578 units (43% of the total) in 1932, and 155 units (9% of the total) in 1933. Thereafter only SS models were produced. Factory records for the Swallow models before this period do not exist; however, it is estimated that a total of some 2,500 Austin-Swallow cars were produced between 1923 and 1934.[19]

considerable defects as quality had been lost in the drive for production volumes, problems that were resolved for subsequent models, particularly the SS2, introduced in 1932. Even more successful were the SS Jaguar models, first launched in 1935 with a new engine supplied on an exclusive basis by Standard.[20] There is some debate regarding the contribution made by Lyons to the design and styling of the SS Jaguar, the similarities with the Triumph Dolomite, which appeared a little later, being quite marked. Here it is of note that Bill Thornton, Triumph's chief body engineer, who had worked on the

[19] *Ibid.* p192.
[20] *Ibid.* pp33, 39.

Dolomite design, joined SS Cars in early 1935 and worked on the creation of the SS Jaguars.[21] It would not have been unusual if use had been made of Triumph's designs for as William Heynes, who in 1935 was recruited from Humber as chief engineer at SS Cars, recalled, at SS Cars, "English and continental cars would be brought in and driven for assessment, and if there was anything good on them, we would copy it". Heynes added that Lyons "was no engineer – he just knew a good car when he saw one".[22]

The launch of the new models, particularly the SS Jaguar, enabled the company to maintain its relative position in the UK motor industry during this period, its production appearing to account for a fairly constant 0.7%-0.8% of total UK annual motor car production, until 1938/39 when the resolution of the production problems with the SS Jaguar, described below, resulted in this figure exceeding 1%.[23] Unfortunately it is not possible to determine more precise figures due to different year ends (July for Jaguar, December for overall production figures published by the SMMT) and because of the necessity of using Jaguar delivery figures as an approximation for production statistics.

Undoubtedly, price had a big part to play in the success of the SS Jaguar, with, for example, the 1.5-litre saloon being priced at £298 in 1938/39[24], compared to £388 for the 1.5-litre Triumph Dolomite. [25] Interestingly, at this time it was not only against other specialist car manufacturers that the company sought to be price-competitive, with the top of the range SS Jaguar 3.5litre saloon being priced at £445, compared with £615 for the top of the range Vauxhall GL saloon. [26] Putnam opined that, "If you go back to the pre-war Jaguars, they promised so much, they looked so stunning, but they weren't particularly good. But they were cheap. Bill Lyons set out to be the cheap Bentley, or Lagonda."[27] Indeed, Adeney points out that at this time Rolls-Royce "compared the appropriate Jaguar [3.5litre saloon] at £450 with the £950 Bentley".[28]

By the late 1930s, SS Cars had an established position amongst the UK's

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[21] Robson, Graham and Langworth, Richard. *Triumph Cars. The Complete Story.* Second Edition. (Croydon, 1988). p100.
[22] William Heynes, quoted in King, *op.cit.* p131.
[23] Society of Motor Manufacturers and Traders. *The Motor Industry of Great Britain.* (London, 1971). p12; Whyte op.cit. p210.
[24] Whyte. *op.cit.* p213.
[25] Robson and Langworth. *op.cit.* p106.
[26] Holden, Len. *Vauxhall Motors and the Luton Economy, 1900-2002.* (Woodbridge, 2003). p40.
[27] Roger Putnam. Interview with the author. November 2006. *Appendix* p124.
[28] Adeney. *op.cit.* p140.

specialist car manufacturers, a characteristic of whom was that manufacture relied "more on craftsmanship and less on expensive machinery than in the case of volume production, so that the labour force also is a larger proportion of the total".[29] It would appear, however, that the company's improved market position was due as much to the financial problems suffered by a number of its rivals as it was to its own volume increases. For example, Lea-Francis went in and out of receivership in the 1930s, Humber was taken over by Rootes in 1931, Lanchester's bank forced it to merge with Daimler in 1931, Lagonda called in the receivers in 1935, and increasing financial difficulties resulted in Swift going out of business in 1938, and Riley calling in the receivers in 1938, as did Triumph in 1939. The relative positions of the various UK motor manufacturers in 1938 are shown in Table 3.1 below. As can be seen, the specialist car producers accounted for 9.9% of total UK car and taxi production in that year, although within the "Big Six" there were certain models, such as the Humber Pullman (Rootes Group), and the Big Six series (Vauxhall Motors), that directly competed with those of the specialist manufacturers.

Because the higher volumes required could not be met by SS Cars using existing methods, a degree of mechanisation was introduced into the manufacturing process, described in Section 3.5 below. Although this seems to have caused some resentment among shop floor workers[30], it is not recorded whether this led to industrial action, suggesting that shop floor attitudes continued to be flexible enough to accommodate such a change. Also, a major new industrial process, involving constructing bodywork from steel panels, was introduced in 1937. This system, detailed in Section 3.5 below, offered considerable advantages, but also resulted in significant problems, and lost production, with deliveries down some 38%, as may be seen in Figure 3.1, and net profits reduced by some 35% to £22,218 in the twelve months ending 31st July 1938.[31]

During this period also, some major corporate changes took place, with the firm first being registered in 1933 as a private limited company under the name "SS Cars Ltd", and then, in January 1935, having its shares listed on the London Stock Exchange.

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[29] Political and Economic Planning. *Motor Vehicles: A Report on the Industry.* (London, 1950). p31.
[30] Thorley. *op.cit.* p34.
[31] Whyte. *op.cit.* p107.

Table 3.1: British Motor Car Production by Company, Year to end September 1938.

Company	Estimated % of Total UK Production
The Big Six (Volume Producers)	
Nuffield	26.6
Ford	17.8
Austin	17.0
Vauxhall	10.1
Rootes	9.6
Standard	9.0
Total Big Six	**90.1**
Specialist Car Producers	
Rover	3.2
Singer	2.6
BSA (Daimler, Lanchester)	1.2
SS Cars (Jaguar)	1.1
Armstrong-Siddeley	0.6
Jowett	0.4
Rolls-Royce and Bentley	0.3
Alvis	0.3
Other	0.2
Total Specialist Car Producers	**9.9**
Total	**100.0**

Source: Adapted from Political and Economic Planning. *Motor Vehicles.* Table 14, p26.

At this juncture, William Walmsley retired from the business, selling his half of the shares in the public offering, leaving Lyons in sole control as Chairman and Managing Director. Lyons retained his 50% of the business, and later bought additional shares, thereby establishing a majority shareholding which, in 1966, at the time of the merger with BMC, amounted to some 54% of Jaguar's voting shares.[32] The personal control Lyons henceforth was to exercise over the company would mirror that of the founders of other motor firms, such as Austin and Morris (Lord Nuffield), Heynes describing board

[32] *Ibid.* p161.

meetings under Lyons as "a joke. He just said what he wanted to do, and everybody agreed with him".[33] Lyons' ability to exercise dictatorial control undoubtedly reinforced his own beliefs regarding management control and organization, and resulted in weaknesses in a number of different, but interrelated, functions, which, according to Underwood "nearly brought about the extinction of Jaguar Cars in the late 1970s".[34] Certainly, as Underwood further observed, by 1972, when he retired, Lyons had "failed to introduce basic modernisation, management systems, or new technology".[35] Espousing this view, Putnam described the problems impacting on Jaguar in the 1980s as being "innate".[36] These aspects are discussed in Sections 3.4 to 3.6 below. However, probably due to Lyons' tight control over costs, and possibly because of care being taken to restrict output, the business remained profitable, as may be seen from Table 3.2, in an era when many other specialist car companies were experiencing severe financial difficulties, as mentioned above.

Table 3.2: SS Cars Net Profit 1935 to 1938.

Year to 31 July:	Net Profit £
1935	24,209
1936	27,367
1937	34,292
1938	22,218

Source: Whyte pp105, 107

Foreman-Peck revealed that Rover, having achieved a loss of £279,000 in 1931-2, was turned round to a net profit of £165,000 in 1935-6 through planning for relatively low volume production at a time when the demand for cars was expanding rapidly.[37]

By the start of World War Two the company was employing a workforce of

[33] William Heynes quoted in King. *op.cit.* p131.
[34] Underwood, John. *The Will to Win. John Egan and Jaguar.* (London, 1989). p17.
[35] *Ibid.* p31.
[36] Roger Putnam Interview. *Appendix* p124.
[37] Foreman-Peck, James. "Exit, Voice and Loyalty as Responses to Decline: The Rover Company in the Inter-War Years". *Business History*, Volume 23, Number 2 (July 1981). pp202-3.

some 1,500[38], due to the increased level of output, and the need for a wider variety of skills as a result of the new production system, with production approaching some 200 cars a week.[39] But the war meant that car production had to be halted, the focus now being on producing war material such as parts for fighter and bomber aircraft, sidecars and trailers, and on repairing and modifying Whitley bombers. These activities were profitable for the company, and undoubtedly helped fund the immediate post war investment required to return to car production. The war enabled the company to benefit from extra, government-funded, space and equipment, including a large machine shop that, according to Underwood, resulted largely from a contract to build the new Manchester bomber.[40] The war also resulted, in February 1945, in the change of the company's name to "Jaguar Cars Ltd", the initials "SS" by this time having somewhat sinister connotations.

Other important developments related to engines. The machine tools for processing engines were bought from Standard which had informed Lyons that, after the war, they would have no further interest in supplying engines. However, the development of a company-designed engine, the XK, was well advanced by the war's end, and the company would henceforth have autonomy in engine manufacture. One other war-time development concerned industrial relations, war-time employment regulations, such as those imposed under the Emergency Powers Act of July 1940, giving rise to a rigid shopfloor institutional structure, and inflexible attitudes, matching the inflexible management attitudes that already existed. This resulted in a mismatch of cultures within Jaguar that would obstruct change and impose significant constraints on its future evolution and growth, as discussed further in Section 3.6 below.

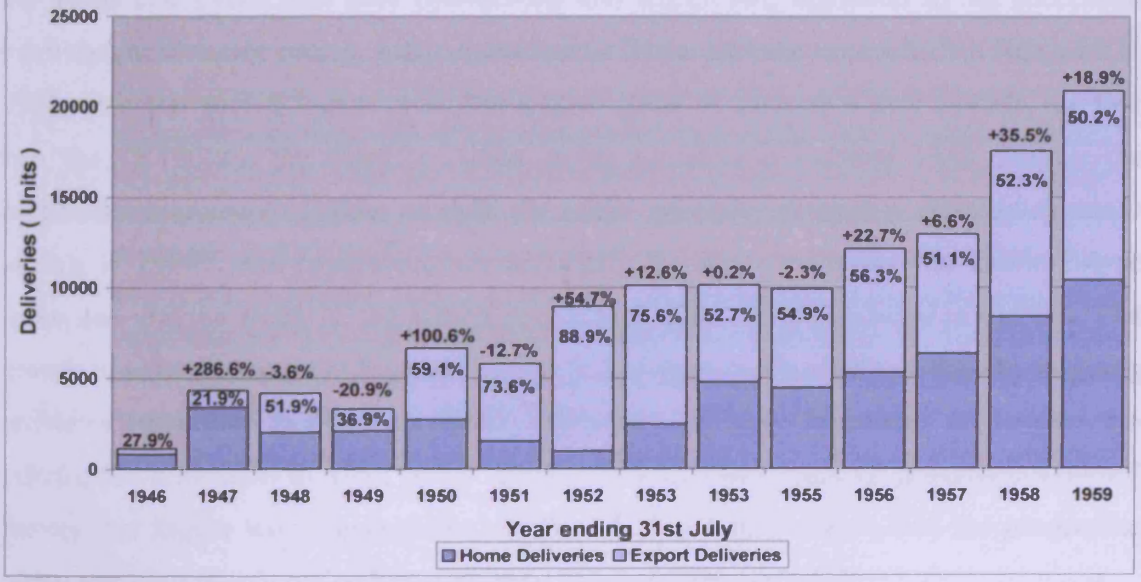
3.3 The Emergence and Growth of Corporate Jaguar, 1945 to 1968

Jaguar resumed production of the saloon range in 1945, but under the "Jaguar", as opposed to the "SS", marque. However, with government dictats focusing steel allocation on motor companies that exported a large proportion of their output, it was necessary for Jaguar to develop overseas markets in order to maintain supplies of steel. As may be seen

[38] Whyte. *op.cit.* p106.
[39] *Ibid.* p111.
[40] Underwood. *op.cit.* p26.

from Figures 3.2 and 3.3 (page 112), Jaguar was successful in this, with exports reaching a peak in 1951/52 of 89% of total deliveries after Lyons had visited various parts of the world to appoint distributors. Henceforth, exports would be an important element in Jaguar's future growth, from 1950 onwards, seldom accounting for less than 40% of total deliveries, as can be seen in Figures 3.2, 3.3, and 3.5 (page 136). In contrast, in the pre-war years the highest volume of total exports in any year, achieved in 1938/39, amounted to 252 cars, accounting for 4.9% of total deliveries in that period.[41]

Figure 3.2: Jaguar Cars Home and Export Deliveries, Export Percentage, and Percentage Change in Total Deliveries, 1945 to 1959



Source: Whyte p241.
Note: Figures do not include vehicles assembled locally in Belgium and South Africa

Indeed, according to Thorley, in the twenty years to 1967 Jaguar would export "over 52% of their entire production, the highest percentage in the British motor industry"[42], and by1956 Jaguar had become the UK's greatest dollar earner.[43] In addition to direct exports, taxation laws affecting exports to Belgium resulted in Jaguar setting up an assembly line in Brussels in 1948, an arrangement which lasted until 1950/51.[44]

[41] Whyte. *op.cit.* p241.
[42] Thorley. *op.cit.* p114.
[43] *Ibid.* p74.

Jaguar's success in the immediate post-war period resulted in it improving its position relative to other specialist car producers, as may be seen in Table 3.3 below, accounting for 1.6% of total UK car production in 1947, compared to 1.1% in 1938 (shown in Table 3.1 above). During the 1950s Jaguar would enhance its position as a specialist producer, aided by the withdrawal of Jowett from car production in 1954, and the demise of Singer in 1956, and the gradually lower annual outputs from Armstrong-Siddeley until it ceased car production altogether in 1960. By the end of the decade Jaguar would account for some 1.75% of total annual UK car production.[45]

Although the initial impetus to growth was high market demand, and restricted supply, in the immediate post-war environment, Jaguar's continued success in the 1950s and 1960s was both product-led and export-led, bolstered by its successful involvement in motor racing, particularly the Le Mans 24-hour race which it first won in 1951. Over this period Jaguar produced a succession of successful new models, the first two, the XK120 and the Mark V saloon, being launched in October 1948. Despite the continual replacement of older models, the range gradually expanded, comprising seven models in 1959[46], and twelve models in 1964[47], the latter including the iconic E-type sports car, and the Mark X, the widest production saloon ever produced in the UK. The growth in volume, shown in Figures 3.2 and 3.3, however, was achieved despite on-going problems regarding quality, continual industrial disputes (discussed in Section 3.6 below), the relocation in 1952 of all operations to Browns Lane (a government-owned factory that Jaguar would eventually buy for £1.25million in 1959), and the production hiatus resulting from a major fire at Browns Lane in February 1957.

This growth in sales during the 1950s caused its own problems for it became obvious that Browns Lane offered insufficient space to produce enough cars to meet anticipated demand. The eventual solution was to purchase in 1960, for £3.4million[48], the ailing Daimler Company, mainly for the space offered at its Radford factory, located some two miles from Browns Lane. Apart from the fact that Radford doubled Jaguar's

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[44] *Ibid.* p57.
[45] Society of Motor Manufacturers and Traders. *The Motor Industry of Great Britain.* (London, 1992). p50; Whyte op.cit. p210.
[46] Thorley. *op.cit.* p84.
[47] *Ibid.* p106.
[48] Underwood. *op.cit.* p32.

Table 3.3: British Motor Car Production by Company, Year to end September 1947

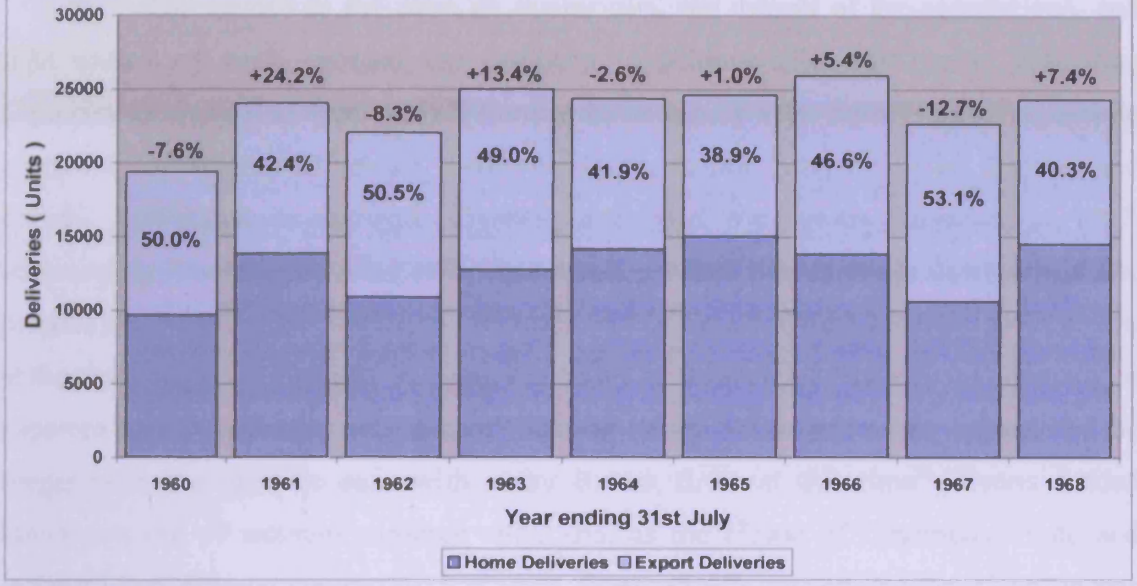
Company	Estimated % of Total UK Production
The Big Six (Volume Producers)	
Nuffield	20.9
Ford	15.4
Austin	19.2
Vauxhall	11.2
Rootes	10.9
Standard	13.2
Total Big Six	**90.8**
Specialist Car Producers	
Rover	2.7
Singer	2.1
BSA (Daimler, Lanchester)	0.6
Jaguar	1.6
Armstrong-Siddeley	0.8
Rolls-Royce and Bentley	0.3
Alvis	0.3
Other	0.8
Total Specialist Car Producers	**9.2**
Total	**100.0**

Source: Adapted from Political and Economic Planning. *Motor Vehicles.* Table 14, p26.

factory space, the acquisition brought Jaguar another two car models, and moved it into the production of limousines, coaches and double-decker buses, public service vehicles, and military armoured cars. Unlike many mergers, or acquisitions, in the motor industry at this time, which, as mentioned in Section 1.5 above, tended to give rise to loosely federated holding companies, the two companies were fully integrated, resulting in redundancies at Daimler, and the discontinuing of certain Daimler activities.[49] All car assembly was now undertaken at Browns Lane, while Radford focused on machining,

[49] Thorley. *op.cit.* pp 92-95.

Figure 3.3: Jaguar Cars Home and Export Deliveries, Export Percentage, and Percentage Change in Total Deliveries, 1959 to 1968.



Source: Whyte p241
Note: Figures do not include cars assembled locally in such countries as Ireland and South Africa.

engine production, and bus production. Although the acquisition of Daimler resulted in some immediate volume increase, as shown in Figure 3.3, annual car production of the enlarged company remained at a fairly constant level during the 1960s, despite the growth in total UK car production, Jaguar's position relative to total UK car production at best remaining at, or slightly below, 1950s levels.

In 1961 Jaguar bought Guy Motors from the receivers for £800,000, thus adding to its range of Daimler buses, and "gaining a significant place in the commercial vehicle industry and giving the market leader, Leyland, a great deal of competition".[50] The acquisition resulted in bus production being centralised at Radford, while the Guy factory at Wolverhampton was dedicated to commercial vehicles. Finally, in 1963, Jaguar acquired Coventry Climax, primarily for its engineering team and facilities, whose main activity was the production of fork-lift trucks, but which also produced racing car

[50] "Motor Vehicle Industry. Fourteenth Report from the Expenditure Committee, with Evidence taken before the Trade and Industry Sub-Committee, and Appendices". (Hereafter Expenditure Committee XIV Report). *Parliamentary Papers*. 1974-75. vol XXV. Para 36.

engines. The fact that this deal was paid for by an exchange of shares[51], thereby diluting Lyons' personal holding in Jaguar, indicates the importance he placed on this particular acquisition.

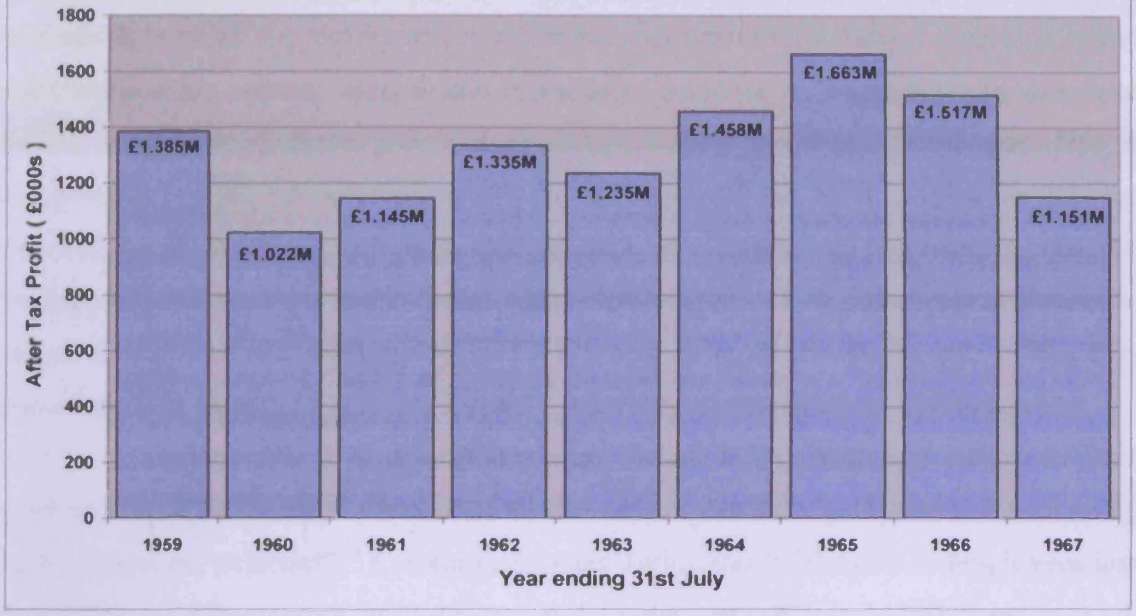
The growth in the sales of Jaguar cars, the impact of the acquisitions, and tight control of costs enabled the company to achieve after tax profits exceeding £1million in every year from 1958/59 onwards, as can be seen from Figure 3.4, despite continual, and sometimes severe, disruption to production from industrial disputes and periodic downturns in demand. Thorley notes that the lower deliveries in 1967, necessitating three-day working at Browns Lane, resulted from a major downturn in UK demand and from Jaguar's aging model range at that time.[52] Whilst Jaguar's profit record at this time might be regarded as being indicative of a financially successful company, it appeared that the situation was that of focusing on the short term at the expense of the longer term. As was the case with many British firms at this time[53], Lyons funded investment out of retained earnings only, and, as the House of Commons Trade and Industry Sub Committee in 1975 ("1975 Committee") opined, whilst "The Jaguar company had progressed steadily.....small profits (about £3million) meant slow expansion".[54] The 1975 Committee noted also that the method of financing Jaguar's expansion had been dictated by Lyons' desire to keep control.[55]

In 1966 Jaguar merged with the much larger British Motor Corporation (BMC), the largest UK producer of volume cars, including Austin and Morris, to form British Motor Holdings (BMH). Various explanations of Lyons motives for the deal have been put forward, including his concern regarding future supplies of bodies, BMC having recently taken over Pressed Steel, Jaguar's own body supplier[56], but Lyons himself does not seem to have proffered a particular reason for the merger. The 1975 Committee concluded that, "The merger was defensive; BMC needed a stronger large car and commercial vehicle range, while Jaguar needed capital to finance research and

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[51] Underwood. *op.cit.* p33.
[52] Thorley. *op.cit* p115.
[53] Whisler, *op.cit.* p53.
[54] Expenditure Committee XIV Report. Para 36.
[55] *Idem.*
[56] Thorley. *op.cit.* p110.

Figure 3.4: Jaguar Profit after Tax, 1959 to 1967



Source: Whyte p243

development in new vehicles and engines".[57] However, it was a merger that had been typical of many in the motor industry, Lyons' insistence that he retained his autonomy and control resulting in a deal that was little more than a "paperwork exercise with little change at Jaguar".[58]

Two years later, in 1968, BMH merged with Leyland, owner of Standard-Triumph and Rover, to form the British Leyland Motor Corporation (later British Leyland). This was a merger that was to have serious consequences for Jaguar, as discussed in Section 3.7 below.

3.4 The Impact of the Lyons Autocracy

Jaguar was William Lyons' creation, and for some forty years he exercised dictatorial control over it. During this time it was impossible to separate the man from the enterprise at any point. Consequently, Jaguar's corporate ethos for much of its existence until the

[57] Expenditure Committee XIV Report Para 36.
[58] Thorley. *op.cit.* pp115-116.

Ford take-over was shaped by him. Certainly, management institutions at all levels in the business evolved in response to the ideology and codes of conduct dictated by Lyons, and which were adopted by other Jaguar managers. Pre-World War Two shop floor workers' institutions evolved in a similar direction. In the post-war environment, Lyons simply did not transform his pre-war notions and methods in response to the changes in shopfloor beliefs, values, and attitudes that had developed during the period of the war. This is discussed in Section 3.6 below. Since Lyons subsequently has been held responsible for many of the deficiencies, such as in management, production, and engineering, suffered by Jaguar in the post-war period, and which were perceived as being causal factors in Jaguar's slide into near-bankruptcy in 1980[59], and its problems in the late 1980s, it is pertinent to consider the aspects of Lyons' personality that resulted in such outcomes.

Undoubtedly Lyons' attitudes were rooted in the Victorian virtues of hard work and thrift[60], although Lyons' often extreme examples of frugality led to his attaining such epithets as "skinflint".[61] Certainly, SS Cars during the 1930s paid its employees less than other local businesses in Coventry, and Lyons constantly exhorted them to work harder[62], whilst he, in turn, worked a sixteen-hour day.[63] In marked contrast, Vauxhall Motors during the 1930s paid its employees significantly more than did other Luton businesses.[64] Egan was to remark about the Lyons era in general that, "There was a general meanness in terms of payment to people and in terms of investment".[65] It was the low level of investment that was most damaging for Jaguar in the longer term for Lyons' philosophy of "make do" led to him forsaking modern manufacturing equipment and techniques in favour of cheaper alternatives. Thus, greater mechanisation of manufacturing at Browns Lane in the late 1950s to accommodate the higher levels of sales, both achieved and anticipated, was accomplished by means of an assembly line that was bought second-hand from the Standard Motor Company[66], and body finishing and painting equipment that was bought second-hand from Mulliner's works in

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[59] Underwood. *op.cit.* p207.
[60] Thorley. *op.cit.* p66; Adeney, *op.cit.* p136.
[61] Bob Ainsworth. Interview with the author. October 2003. *Appendix* p1.
[62] Thorley. *op.cit.* p31.
[63] Underwood. *op.cit.* p18.
[64] Holden. *op.cit.* p117.
[65] John Egan, quoted in Underwood. *op.cit.* p207.
[66] John Egan, Interview with the Author. October 2007. *Appendix* p64; Roger Putnam Interview.

Birmingham.[67] Another example was to be found in the poor quality of the tooling, designed and owned by Jaguar, used in the pressing of body panels, leading Geoffrey Robinson to remark that, "Bill Lyons wanted a first-class body shell off third-class tooling".[68] The consequences of such a philosophy are discussed in Section 3.5 below, and in Chapters Six and Seven.

Lyons' own values and beliefs, shaped by such Victorian virtues as hard work and frugality, undoubtedly laid the foundation for what most writers have described as his dictatorial, or autocratic, management style.[69] Such behaviour, however, was hardly unique, with founders or heads of other motor companies, such as Nuffield, Austin, and Black (of Standard Motor), being noted for their personal dominance of their respective businesses.[70] Certainly, Lyons appeared to demand nothing less than total control over his business, even to the extent of "negotiating intricate details of piecework with union officials"[71], and had difficulty in delegating decisions. Consequently, even small decisions on his cars could not be taken if he was away, a situation which Adeney notes as being the same at the end of Lyons' tenure as it was at the beginning.[72] This was to have serious longer term consequences for, with Lyons basing decisions on personal experience, intuition, and conviction, there was little need of structured control, cost, and other information systems, resulting in an unsophisticated business lacking professional managers. For example, both Grant and Beasley recounted, as mentioned in Section 2.1 above, how an absence of information systems had constrained problem solving in regard to quality and reliability and to marketing. Again, Dale related how in the mid-1980s it was found that the engineering drawings for the XJ-S did not match the actual car[73], and Scheele discovered that even in 1992 the manufacturing costs of the Series III were not known.[74]

Appendix p123.

[67] Collins, Paul, and Stratton, Michael. *British car factories from 1896: a complete historical, geographical, architectural & technological survey.* (Godmanstone, 1993). p220.

[68] Geoffrey Robinson quoted in Underwood, *op.cit.* p51.

[69] Adeney, *op.cit.* pp136,138; Thorley. *op.cit.* p123; Underwood, *op.cit.* p35.

[70] Adeney, *op.cit.* pp44-5,108; Whisler. *op.cit.* pp37-41.

[71] Adeney. *op.cit.* p138.

[72] *Ibid.* p136.

[73] Mike Dale. Interview with the author. June 2007. *Appendix* p35.

[74] Nick Scheele. Interview with the author. May 2007. *Appendix* p136.

Given Lyons' concern for personal dominance it is not too surprising that relations between him and his original partner, Walmsley, became "strained"[75], the two men arguing "incessantly".[76] However, the part played by Walmsley in the development of what became Jaguar in the thirteen years or so that he was a joint partner in the business is unknown, his role, in a measure characteristic of an Orwellian totalitarian state, having been air-brushed out of the official company history of Jaguar and its subsidiaries. As Underwood was to remark, the official history was a publication in which "the name William Walmsley does not appear once".[77] Whilst the accounts written by Thorley, Underwood, and Whyte correct this distortion of the truth to some extent, they relate little of what Walmsley achieved, perhaps for lack of information, other than noting his design and craft skills, and the fact that it was he who started the business that Lyons later joined. Again, perhaps for lack of information, all three writers ascribe all the decisions taken in the business as being those of Lyons alone.

Following the flotation of the company in 1935, Lyons maintained a majority shareholding in the business, a situation which enabled him "to continue ruling over it like some personal fiefdom"[78], and, as has been noted in Section 3.3 above, he was certainly averse to losing control, and refused to relinquish authority when Jaguar merged with BMC. Although the company went public in 1935, forcing Lyons to appoint directors, the Board, on Lyons' own admission, "rarely met and then only as a formality to satisfy legal requirements".[79] It may be reasonably argued that because Lyons rarely delegated major decisions his co-directors were ill-equipped to succeed him, as was demonstrated by his chosen successor, "Lofty" England (see Section 3.7 below). As Dellheim observed, "Jaguar was led by managers who had much experience in following orders and little practice in making decisions".[80] Whether or not Lyons had much respect for his co-directors is a matter for conjecture but, as Whyte relates, he did not see fit to

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[75] Thorley. *op.cit.* p30.
[76] Underwood, *op.cit.* p22.
[77] *Ibid.* p23.
[78] *Ibid.* p24.
[79] Sir William Lyons, quoted in Wood, Jonathan. *Wheels of Misfortune: The Rise and Fall of the British Motor Industry.* (London, 1988).p80.
[80] Dellheim, Charles. "The Historian and Corporate Culture" in *The Public Historian*, Volume 8, Number 2 (Spring 1986). p17.

consult them in regard to the acquisition of either Daimler or Guy Motors, or about the merger with BMC, since "as the majority shareholder such decisions were his alone".[81]

Lyons' own Victorian-influenced values and beliefs also determined his attitude towards, and his relationship with, his workforce, his approach here gaining him a reputation for being a "hard task-master".[82] Increased enterprise size did not seem to have impeded his personal dominance of all aspects of strategic and operational activities, with frequent tours of the factory, particularly Browns Lane, aimed at keeping everyone, workers and managers alike, "on their toes".[83] Thorley relates that workers were frightened of Lyons' wrath if they were found wanting during one of these tours.[84] Such actions may be seen as demonstrating the primacy of management in the light of the increased power of the unions on the shop floor, discussed further in Section 3.7 below. Although Thorley argues that Lyons tolerated trades unions[85], a more widely accepted view is that although he believed that trades unions were an impediment to businesses making profits[86], he was forced to work with them because of post-war industrial relations legislation. This is discussed further in Section 3.6 below.

Somewhat paradoxically, Lyons was hailed for his paternalism as a result of him setting up an employees' pension scheme, and having the company pay for such things as employees' annual outings to Blackpool, for Christmas lunches for employees, Christmas parties for employees' children, and a social club.[87] However, in providing such benefits, Lyons appeared merely to be emulating the likes of Nuffield, and Bartlett (Managing Director of Vauxhall Motors, 1929 to 1953). Nuffield had "pioneered many employees amenities such as holidays with pay, profit-sharing, sports clubs, and medical centres [and] also believed he should pay reasonable wages"[88], whilst the paternalistic policies pursued by Bartlett included high pay, group bonus, and profit sharing, as well as "better welfare, sporting, social and canteen facilities".[89] But whilst the adoption of some

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[81] Whyte. *op.cit.* p117..
[82] Thorley. *op.cit.* p31; Underwood, *op.cit.* p35.
[83] Thorley. *op.cit.* p68.
[84] *Idem.*
[85] *Ibid.* p52.
[86] Underwood. *op.cit.* p19.
[87] Thorley. *op.cit.* pp 31, 43, 70.
[88] King. *op.cit.* p71.
[89] Holden. *op.cit.* p136.

of these measures by Lyons might be regarded as pure altruism, an alternative, and more likely, interpretation might be that, in the face of the threat posed by organised labour, Lyons, in common with many other British managers, was merely responding with the carrot of traditional benevolent paternalism, as opposed to the stick of victimization and harassment of trade union organisers that he had once applied. Whisler argues that British management in general viewed paternalism as a means of maintaining control over workers, with Rover, for example, sponsoring sports and social clubs, and providing workers disability pay.[90] But such paternalism does not appear to have resulted in diminishing the trade unions' power and influence on employees, Whisler noting that, "It was clear in the early 1950s that management's paternalism had failed to ensure peaceful industrial relations and impede trade unionism".[91] Indeed, the trade unions, according to Underwood, saw Lyons as "an old fashioned manager with an appalling attitude towards his employees".[92]

3.5 Production Issues in the Lyons Era

As was related in Section 3.2 above, the origins of the Jaguar business lay in the craft-dependent activity of coach building. Sidecars, and then motor cars, were hand-crafted on chassis bought in from outside suppliers, and while volumes remained comparatively low faults could be fairly easily identified and rectified before the vehicles left the factory. With this method of production operating virtually unchanged from 1922 until 1937 there can be little doubt that shop floor attitudes were determined by continuity as customs, traditions, and codes of conduct remained basically unaltered, thus reinforcing a craft-orientated corporate culture. Increased volumes were achieved initially through increasing the size of the workforce, although this resulted in the original SS1 car suffering considerable defects as quality was lost in the drive for production volumes.
But, to meet even higher levels of demand for the SS Jaguar saloon, the existing production systems required some degree of mechanisation.

Consequently, two measures, mentioned in Section 3.2 above, were introduced to help resolve the problem. First, a new assembly line enabled the bodies to

[90] Whisler. *op.cit.* p193.
[91] *Ibid.* p194.
[92] Underwood. *op.cit.* p19.

be mounted on trestles and pulled along by chains while the operatives installed the various components. This did not alter the craft-based nature of the workers' tasks, but meant that workers had to maintain pace alongside the cars, and this could lead to quality defects. Second, a major new industrial process, whereby all-steel panels replaced wood-framed bodywork, was introduced. Whilst this required some change in the trades employed, with an emphasis now on metalworkers, the cars remained essentially hand-crafted. But, in what was obviously a design fault, the various steel panels, produced by different outside companies, did not fit together properly, a problem that took months to resolve, and even then required a lot of hand finishing work before the cars were perfect.[93] Thorley notes that "lead loading", the practice of using hand-moulded lead to fill in gaps and undulations and achieve the required lines, "became the norm"[94], and was a practice that continued well on into the 1980s, undertaken, as related by Bennett, even by Jaguar's retailers seeking to rectify faults before delivery to the customer.[95] Indeed, it would appear that hereafter the continuance of quality problems shaped and reinforced shop floor institutions, both labour and shop floor supervisors, and resulted in ingrained attitudes in regard to post-assembly rectification work. Even in the 1980s there was an acceptance, according to Ainsworth, that "right first time every time wasn't in the ethos at all" and that at Browns Lane cars had to be continually re-worked.[96]

Quality was to be a recurring problem after the end of World War Two, for a variety of largely unspecified reasons. The process of re-conversion of the business to car production after nearly six years of armament-related activity in itself undoubtedly caused problems, with numerous complaints being received from distributors about the quality of workmanship and the presentation of the cars.[97] Consequently, in a move that would pre-empt Egan's much heralded Quality Circles by some thirty-five years (see Section 6.9 below), in 1946 Lyons set up a Joint Production Committee made up of managers and workers to iron out problems and to look at workers' ideas for improving the factory.[98] The success, or otherwise, of this initiative, however, is not recorded. It is of

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[93] Thorley. *op.cit.* p35.
[94] *Idem.*
[95] Martin Bennett. Interview with the author. July 2008. *Appendix* p12.
[96] Bob Ainsworth Interview. *Appendix* p2.
[97] Thorley. *op.cit.* p53.
[98] *Ibid.* p52.

note that in setting up this committee Lyons appeared merely to be emulating developments elsewhere in the industry, Vauxhall Motors having established its Management Advisory Committee in 1941, a body that was to form the "lynchpin of management-labour relations at Vauxhall" until the late 1950s when the Committee was disbanded.[99] In 1946 also, Lyons started to take cars home for evaluation, reporting back on faults as appropriate[100], although there is no evidence of any consequent remedial action, and it is problematic as to whether Lyons' action here constituted quality control.

The industrial relations problems suffered by Jaguar throughout the post-war period, discussed in Section 3.6 below, no doubt also contributed to the poor quality problem. Whisler argues that, in relation to the motor industry generally, "the disruptions to work routines and parts supplies caused by chronic industrial action reduced build standards".[101]

In common with similar motor manufacturers, such as Rover, increased sales also are likely to have adversely impacted on quality, with quality being sacrificed for volume, and the increased number of workers employed to manufacture higher volumes also having a dilutive impact on quality.[102] By 1956 the Jaguar workforce had increased to 4,000[103], compared to the 1,500 employed immediately prior to World War Two.

The further increases in sales in the 1950s led to the installation of a more mechanised assembly line that was bought second-hand from the Standard Motor Company, as mentioned in Section 3.4 above. This, however, did not automate the assembly process, and many activities, such as the building of doors, were hand-crafted alongside the assembly track, a situation that continued well into the 1980s.[104] Production, however, had been modified slightly by the introduction in 1955 of monocoque designs where floor pans, built from different pressings, replaced chassis, resulting in the use of mounting jigs instead of trestles on the assembly line. It is of note that Jaguar was well behind in the adoption of monocoque construction, the first British car built in this

[99] Holden. *op.cit.* p122.
[100] Thorley. *op.cit.* p53.
[101] Whisler. *op.cit.* p358.
[102] *Ibid.* p359.
[103] Thorley. *op.cit.* p73
[104] Jake Weidinger. Interview with the author. May 2008. *Appendix* p147.

manner being the Vauxhall H-type, launched in 1938.[105]

Finally, it has to be noted that the conditions of work and the apparent lack of shop floor discipline would have created a culture that would undoubtedly have undermined attempts at reform. Photos of the Foleshill assembly area in 1950[106] and the Browns Lane assembly area in 1964[107] show overcrowded and debris-strewn areas, which did not demonstrate a great deal of regard for safety, with, for example, overhead lines carrying trim above work stations.[108] In Egan's view, manufacturing in the Lyons' era was never "a well thought of discipline".[109]

3.6 Industrial Relations in the Lyons Era

As previously noted, the development of the Swallow/SS Cars business before World War Two appears to have been fairly undistinguished in regard to production and labour relations issues. The industrial relations agenda was undoubtedly determined at an early stage by Lyons' attitude in regard to trades unions. Lyons was well-known for his distaste of trades unions and, as mentioned in Section 3.2 above, the first experience of the withdrawal of labour, shortly after the company had moved to Coventry, resulted from a dispute in the company's sawmill over union membership. This is an experience that does not appear to have been repeated in the pre-war period and, as Adeney observed, Lyons "had refused to negotiate with the Sheetmetal Workers Union; like many manufacturers he had dismissed union activists, and paid one TGWU steward to stay at home even during the war".[110] Unsurprisingly, as Thorley notes, "Before the war and for some time afterwards the company was not totally unionised"[111], but this was not uncommon in the motor industry at this time, unions generally having been unsuccessful in organizing car workers in the inter-war period.[112]

However, World War Two proved to be an exogenous force that produced a radical re-routing of the company's corporate ethos, largely as a result of government

[105] Holden. *op.cit.* p51.
[106] Thorley. *op.cit.* p57.
[107] *Ibid.* p104.
[108] *Ibid.* p107.
[109] John Egan Interview. *Appendix* p64
[110] Adeney. *op.cit.* p190.
[111] Thorley. *op.cit.* p52.
[112] Adeney. *op.cit.* p170.

action aimed at maintaining production of essential war materials. Unfortunately, the literature covering the motor industry in general, and Jaguar in particular, does not provide much discussion of the events and consequences for the motor industry of this important era. Adeney, one of the exceptions to this, argued that, for Lyons, wartime developments in industrial relations represented "a sea-change which marked a break with the past that was almost incomprehensible".[113]

The Conditions of Employment and National Arbitration under the Emergency Powers Act of July 1940 severely restricted management action in relation to employees, and trades unions in particular, and "effectively handed power to the unions even in plants where the management had [previously] refused to do business with them".[114] Moreover, the Essential Work Order restricted the ability of companies to hire and fire. Adeney notes that the effect of such measures and "the climate of working together for victory established the unions as never before".[115] The impact on Jaguar was profound as Jack Beardsley, who became a works superintendent at Jaguar after the war, related: "We didn't know anything about unions until 1943, but then we had to be affiliated. We had troubles then, stoppages".[116] Change was marked by the union institutions now becoming an entrenched part of the company's corporate culture, underpinned by the fact that the National Arbitration Act remained in force until 1951.

Henceforth, industrial disputes would be a constant factor influencing the company's *modus operandi* and direction. Lyons appears to have recognised the need to modify his own historically developed values and beliefs, and attempted to redirect the shop floor institutions that had evolved in the course of the war through a mixture of paternalism and accommodation. In contrast to the situation when the company had first moved to Coventry, Lyons, owning a majority of what by this time had become a successful and important company, now had a great deal to lose personally and was obviously prepared to make concessions to the shop floor workers. Minor disputes at Foleshill in 1946 resulted in a mass meeting at which Lyons spoke to the workforce on the issues, following which a committee of twenty-five shop stewards was established to

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[113] *Ibid.* p189.
[114] *Ibid.* p188.
[115] *Ibid.* p191.
[116] Quoted in Adeney. *op.cit.* p191.

deal with matters.[117] The success of this initiative is not recorded, but Thorley notes that "minor irritations and disputes continued for many years".[118] The nature of these is not recorded, but the limited degree to which Lyons' attitudes had been modified was demonstrated by the seven week strike in 1953 by the National Union of Vehicle Builders over the victimization of shop stewards.[119] That there was a divergence of attitudes during the 1950s is illustrated by the refusal of workers to accede to Lyons' appeal to them in 1956 to accept lower piece rates at a time when the company was forced, because of an economic downturn, to operate short time working[120], perhaps demonstrating the failure of Lyons' paternalism, and by a strike in 1959 emanating from an inter-union dispute.[121]

Even so, it has to be recognised that the nature and extent of disputes at Jaguar during the Lyons' post-war era were only in part a result of the growth of trade unionism. As mentioned above, union institutional structures now formed part of Jaguar's corporate culture, but as a result there was institutional overlap, and a consequent dysfunctionality that was to significantly constrain attempts at future operational and strategic reforms. The major problem during the 1960s and 1970s impacting on the British motor industry in general was the greater number of unofficial strikes caused by a myriad of factors.[122] Adeney argues that the impact of unionization at this time was "skin-deep" and that the issue was that unions, like management, were too weak, not too strong, union officials having little influence with their members, despite the part they played in negotiating piece rates and manning levels.[123] The situation appears to have been little different at Jaguar, with numerous disputes occurring in the 1960s, of which the most devastating was a five-week unofficial strike by assembly workers in 1965[124], and during 1970 there were few full weeks of production at Jaguar due to constant strikes and disputes.[125] Whilst the outcome of many of these disputes is not recorded, the continuance

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[117] Thorley. *op.cit.* p52.
[118] *Idem.*
[119] *Ibid.* p66.
[120] *Ibid.* p75.
[121] *Ibid.* p83.
[122] Foreman-Peck *et al*, *op.cit.* p177.
[123] Adeney. *op.cit.* pp236-7.
[124] Thorley. *op.cit.* p103.
[125] *Ibid.* p120.

of this behaviour suggests that employees perceived that the rewards of their actions exceeded the costs.

Geoffrey Robinson appears to have recognised, and started to address, the constraints posed by the inflexibility of at least some of Jaguar's encrusted institutions, but these were ignored by BL which attempted to destroy the company's corporate ethos, a measure which served only to reinforce prevailing shopfloor attitudes, as is discussed in the next section.

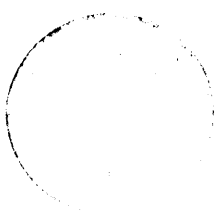
3.7 The BL Stewardship, from 1968 to 1980

Lyons remained at Jaguar from the merger with Leyland in 1968 until retiring in 1972. During this period his continuing presence ensured some degree of independence and protection for Jaguar as the various car companies within BL defended their parochial interests against calls for the creation of corporate integration and identity, and vied with each other for shares of the corporation's scarce investment funds[126], while "the frequent conflict at the top levels [of BL] created an inertia".[127] But whilst Lyons, protective of Jaguar's position as the specialist luxury sports car maker within BL, managed to kill off the development of a new Rover sports car[128], he was unable to prevent the dismemberment of the Jaguar Group, with Guy Motors being transferred to the Leyland Truck and Bus Division in 1969.[129] Whisler notes that during this time the impact of corporate in-fighting within BL resulted in the various companies' management and workers seeking refuge in the status quo.[130] Certainly, Jaguar workers saw themselves as craftsmen and, therefore, as part of an elite within BL[131], the corporate culture at Jaguar thus being at variance with that of BL.

However, despite some very positive developments, such as the 1969 launch of the XJ6, which was to remain in production in its various versions until 1992, it was a period marked by an increasing number of industrial disputes at Jaguar. The dispute of 1970, noted above, culminated in 1972 in a ten week long strike over the BL-imposed

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[126] Whisler. *op.cit.* pp101-104; Adeney. *op.cit.* pp278-279.
[127] Whisler. *op.cit.* p105.
[128] Adeney. *op.cit.* p278.
[129] Thorley. *op.cit.* p120.
[130] Whisler. *op.cit.* p105.
[131] Underwood. *op.cit.* p51; Edwardes, Michael. *Back from the Brink. An Apocalyptic Experience.* (London, 1983). p175.



move from the piece rate payment system to the Measured Day Work (MDW) system. Although the introduction of MDW was seen as a reform vital to the introduction of "Fordist" production in the BL volume car business, the situation at Jaguar was different, and here BL was seeking to impose MDW on a culture shaped by labour-intensive, craft-based, processes and piecework payment. Whilst MDW was eventually accepted, the change was largely superficial, both management and labour adhering to their traditional behaviour. The empowerment of the trade unions provided by the piece-rate system, and the long-established management strategy of using labour-intensive techniques, had given the union shop stewards control over flow and working practices, and the introduction of MDW altered little other than the fact that assembly line workers now had no incentive to ensure continual production flow, or keep product quality acceptable. Ainsworth, a former shop steward at Jaguar, admitted that, "When we moved to flat rate nobody cared".[132] Foreman-Peck *et al* argue that whilst the piecework system gave workers "a material interest in circumventing assembly problems caused by poorly machined components", with MDW "component fit and quality became exclusively a management problem". [133] But the required change was constrained by the factory managers who lacked the skills necessary to plan and supervise labour. Underwood notes that MDW resulted in the employment of three times the number of supervisors who lacked adequate training, and "who failed to win the respect of shop floor workers".[134] The impact of this in the Egan era is discussed further in Sub-Section 6.4.3 below.

When Lyons retired in 1972 he was succeeded by his deputy, "Lofty" England, who had joined Jaguar in 1946. However, as a result of Lyons' autocratic style, England had no real experience of running the business, and not only lacked management skills but seemed incapable of recognising, let alone attempting to rectify, Jaguar's management inadequacies. In particular he appeared to lack the skills required to maintain Jaguar's independence in the light of continual incursions from BL, with BL subjecting the company to more controls, and moving accountability away from Jaguar.[135] In October 1972 "Jaguar Cars Ltd" ceased to exist as a separate company, although BL's

[132] Bob Ainsworth Interview. *Appendix* p3.
[133] Foreman-Peck *et al*. p173.
[134] Underwood. *op.cit*. p43.
[135] Thorley. *op.cit*. pp122-3.

desire for Jaguar to retain its separate identity appears to have been the reason for the appointment, in mid-1973, of Geoffrey Robinson, in charge of BL's Innocenti business in Milan, as Managing Director. "Lofty" England retired in January 1974.

The appointment of an outsider, bringing the experience of different corporate environments and structures, provided the opportunity for innovative decision-making. But more importantly, Robinson appeared to have quickly identified some of the company's weaknesses that were unrecognised by the existing management, consequently challenging encrusted institutional structures.[136] Of particular note, he addressed the constraints posed by inherent management weaknesses by appointing former Ford senior executives to top management positions in manufacturing and purchasing, and establishing a seven-man management board, of which only two of its members had been part of the previous management team.[137] Robinson appears to have recognised that the Jaguar workforce regarded themselves as an elite within the British motor industry, producing a unique product that had gained worldwide fame as a result of racing successes. Consequently, according to Bower, he actively sought to gain their co-operation, and modify their traditional attitudes and beliefs, by pandering to their self-image, avoiding any type of confrontation with them, and through lavishly entertaining the shop stewards.[138] This approach appears to have prevented further industrial disputes, the only strike during Robinson's tenure being an unofficial action two weeks after he arrived at Jaguar. This, plus the expansion and investment plans that Robinson announced, together with his energetic management style, appeared to result in "a renewed commitment by workers and management"[139], and record car deliveries in 1974, as shown in Figure 3.5 (page 136). However, that there had been any modification of encrusted shopfloor attitudes was questioned by Dale who, lending support to Bower's view, opined that, "The only way he [Robinson] got work out of the unions was by promising them the earth, and the results were astonishingly bad both from a quality and a production angle".[140]

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[136] Underwood. *op.cit.* pp45-46.
[137] Whyte. *op.cit.* p171.
[138] Bower, Tom. *The Paymaster. Geoffrey Robinson, Maxwell and New Labour.* (London, 2001). pp25-6.
[139] Underwood. *op.cit.* p46.
[140] Mike Dale. e-mail to the Author, 5 August 2008. *Appendix* p4n8.

Providing further support for the view that Robinson had not been successful in effecting cultural change at Jaguar was the fact that the workforce reverted to its traditional behaviour after he resigned in 1975 following the government-commissioned Ryder Report which resulted in BL's car operations being amalgamated into a single amorphous business, and Jaguar ceasing to exist as a separate entity. Indeed, as Wood succinctly comments, Jaguar was "nearly obliterated in the chaos of the post-Ryder years".[141] But, in implementing the Ryder recommendations in regard to Jaguar, BL failed to recognise and address the importance of culture. The transfer of all Jaguar's specialist functions such as sales and marketing, and purchasing, to BL, with only the engineering department remaining at Browns Lane, significantly altered the company's corporate culture, leading to a radical shift in shopfloor attitudes as employees, and factory supervisors, came to believe that they had no future. Such a view was reinforced by various measures pursued by BL, including: the Browns Lane and Radford plants being split up, with Browns Lane becoming part of BL's assembly division, and renamed "Leyland Cars Large Car Assembly Plant No 2", and Radford becoming part of BL's power train division, and renamed "Radford Engines and Transmission Plant"; the decision to erect a new paint facility at the BL plant at Castle Bromwich, rather than at Browns Lane, as had been planned by Robinson; the removal of all Jaguar signage from Browns Lane.[142] But, most tellingly, BL made no attempt to make good the lack of investment of the Lyons' autocracy, Scheele noting that, "If you look at Jaguar's investments in the Leyland years, there was incredibly little in facilities".[143]

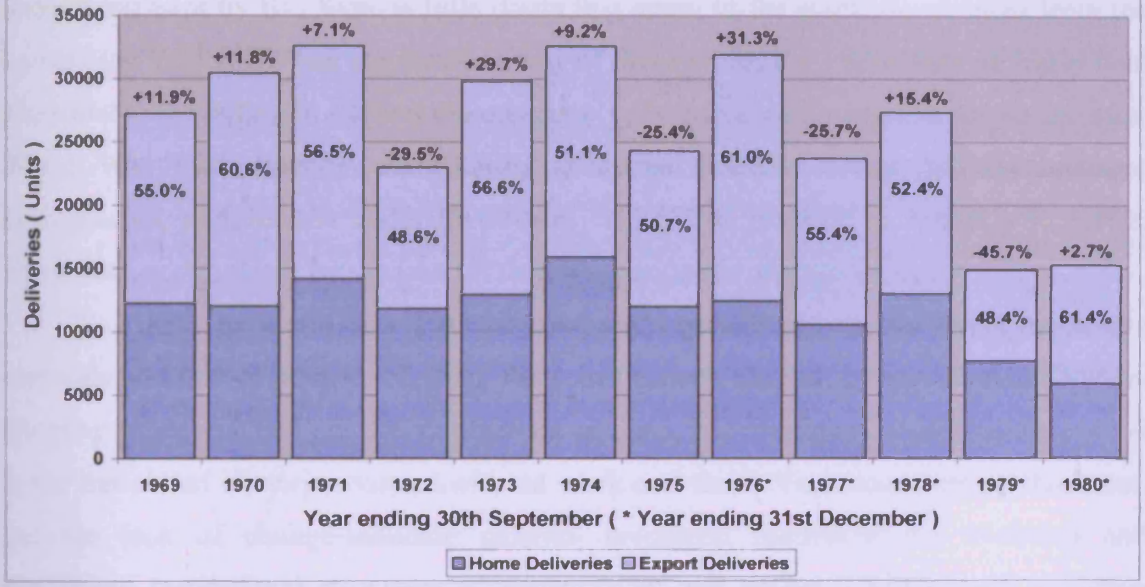
The consequent behaviour of the workers served to reinforce prevailing shopfloor institutions and led to greater conflict between management, unions, and workers than had ever been experienced previously at Jaguar, particularly as a result of BL's constant push to increase productivity.[144] Product quality suffered, and "Dealers were complaining about the amount of rectification work they had to carry out and owners were losing faith in the once prestigious marque".[145] In part this emanated from

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[141] Wood, *op.cit.* p206
[142] Thorley. *op.cit.* p127; Thoms, David, and Donnelly, Tom. *The Coventry Motor Industry: Birth to Renaissance?* (Aldershot, 2000). pp179-80.
[143] Nick Scheele Interview. *Appendix* p129.
[144] Thorley. *op.cit.* p128.
[145] *Idem.*

poor build quality, but on the new Series III saloon launched in 1979 the problems were more deep-rooted, owing much to design faults, discussed in Chapter Seven, and this, plus a major strike by Jaguar assembly workers over pay, against an economic background of the onset of a severe recession that was to last until 1981[146], resulted in sales dropping to a twenty-year low, as can be seen in Figure 3.5.

Figure 3.5: Jaguar Cars Home and Export Deliveries, Export Percentage, and Percentage Change in Total Deliveries, 1968 to 1980



Source: Whyte p241

Note 1: Change of year end results in 1969 being a fourteen-month period. On an annualised basis the year -on-year change in deliveries is a decline of 4.1%.

2: Change of year end results in 1976 being a fifteen-month period. On an annualised basis the year-on-year change in deliveries falls to +5.3%

3: Downturn in 1972 directly attributable to impact of Piece Rate strike.

Even so, although now in dire straits, and in danger of being closed down, Jaguar was to be afforded one last chance. In 1977 Michael Edwardes, who had been appointed Chairman of BL, set in motion a recovery plan for BL. A first move involved splitting the car side of BL into two parts: volume cars, and the three prestige marques of Jaguar, Rover, and Triumph. However, the new company, Jaguar-Rover-Triumph, was to last but a couple of years, for Edwardes, realising problems with his original concept,

[146] Foreman-Peck *et al. op.cit.* p218.

and, deciding to re-assert the marque, set up another new company, Jaguar Cars Holdings, which would be responsible for Jaguar, Daimler, Browns Lane, and Radford. The fortunes of Jaguar under the management of John Egan, brought in to run the new company, is the subject of the following chapters of this thesis.

3.8 Summary and Conclusions

Although at the time of Jaguar's second stock exchange flotation in 1984 it was fashionable to blame the problems that had faced the company on mismanagement and underinvestment by BL, there is little doubt that many of the problems resulted from the Lyons' era. Whilst BL had aggravated many of these problems, Lyons may be justly held accountable for failing to address the company's pervasive weaknesses in the period after World War Two, thereby exacerbating industrial relations issues and management inadequacies, and for the under-investment which had resulted in Jaguar's factories, equipment, and systems by the late 1970s being outmoded and inefficient.

Prior to World War Two the company's growth and success owed much to a corporate culture composed of shop floor institutions shaped by craft-based, labour-intensive processes, and piecework payment systems, and management institutions rooted in the traditional Victorian virtues of hard work and thrift. The success of the business, and the lack of change-inducing external pressures, reinforced the evolving and established institutional structures of management and labour, sustaining the existing corporate ethos.

World War Two constituted a watershed that produced a radical modification of employee values and attitudes, and a consequent adjustment of Lyons', and management's, approach to running the business. Whilst maintaining his long-held values and beliefs, Lyons henceforth would seek to accommodate the demands of an increasingly pervasive and inflexible shop floor institutional structure, having the effect of reinforcing shopfloor behaviour. However, Lyons assumed that labour would respond to paternalism and an accommodating management style, and made little attempt to address the informal expectations and behaviour of both labour and lower level management that were becoming entrenched in the company and which would obstruct change and impose considerable constraints on Jaguar's future evolution and growth.

Lyons' "make-do" philosophy and under-investment in capital equipment and systems, emanating largely from his Victorian attitude to thrift and his unwillingness to dilute his personal shareholding in the company, resulted in production that, whilst mechanised, remained rooted in craft-based activities and which imposed constraints on higher volume outputs. One consequent problem was that of poor quality, which was to become a recurring issue in the post World War Two period, and which was the major factor in the company's near demise, first in the late 1970s, and then in the late 1980s.

Robinson had started to address Jaguar's encrusted institutional structures, but with limited success, and which in any case was negated by the post-Ryder attempt to assimilate Jaguar within BL. Here, Jaguar's traditional behaviour and institutions which had been shaped by the "British System", and the elitism inculcated by belief in the uniqueness of the product, proved to be incompatible with those entrenched in BL and which had been shaped by high volume production methods. The attempt by BL to destroy the company's identity and corporate ethos only reinforced vested interests and the historic institutional structure of management and labour, leading to even more firmly entrenched attitudes. Egan appears to have seen nothing wrong with the corporate culture when he arrived at Jaguar, other than the weaknesses caused by trade union ingrained attitudes. Egan's failure to recognise and address the weaknesses in the corporate culture as a whole only served to exacerbate the underlying problems of organizational dysfunction and inadequate corporate resources, and undermined his attempts to establish Jaguar as a world leader in the production of luxury cars. This is discussed in particular in the next chapter which looks at the subject of management in general during the Egan era.

CHAPTER FOUR

THE EGAN YEARS – OVERVIEW, MANAGEMENT, STRATEGY

4.1 Introduction

As related in Section 1.2 above, John Egan was widely acclaimed during the 1980s and afterwards for his success in revitalizing Jaguar, thereby saving it from the threat of closure, and going on to privatize the then flourishing company, and successfully launching an all-new model, the XJ40. Typical here was the comment of Bruce Blythe, one of the Ford executives responsible for its acquisition of Jaguar, when he stated that, "John Egan absolutely, almost on a personal basis, saved Jaguar. I think his performance was heroic, absolutely heroic".[1] Such sentiment was not dented greatly by the downturn in the company's fortunes from 1987 onwards since there was general acceptance of the Jaguar version of the problem resulting from the strength of Sterling and the lower demand for luxury cars in the US market, factors over which Jaguar could exert no control. However, as will be demonstrated in the following chapters of this thesis, this was a view that was based on incorrect or incomplete evidence and premises, with Jaguar's well-honed public relations efforts successfully concealing Jaguar's failure to address many of its inherited problems, and the reasons for its decline after the launch of the XJ40.

In the Introduction to this thesis it was stated that a primary aim of this study has been to examine the extent to which Jaguar's reduced fortunes after 1987 resulted from the Egan management failing to recognize and address the deep-rooted problems inherent in Jaguar's corporate culture, which, as was demonstrated in Chapter Three, developed in the years of the Lyons autocracy. These cultural issues were pervasive, impacting all areas of Jaguar, as will be apparent from the following chapters which examine particular departments and functions of the company during the Egan era. However, management itself suffered considerable dysfunction, and this had a significant detrimental impact on the company's fortunes.

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[1] Bruce Blythe. Interview with the author. January 1994. *Appendix* p19.

This present chapter provides an overview of the main phases of Jaguar's fortunes during the Egan era, and examines the nature and quality of the Egan management team, questioning its culpability in regard to the problems encountered by Jaguar, and the extent to which it suffered from cultural constraints, topics which are then examined in greater detail in subsequent chapters. This chapter also examines Egan's much-lauded leadership abilities, particularly in the light of Jaguar's highly effective PR campaign, much of which was devoted to promoting Egan himself, and questions the extent to which Egan was successful in directing the activities of the management team. Furthermore, it considers whether Jaguar practiced good corporate governance in an era when there was increasing concern in the City about the degree of good stewardship exercised by company directors in general and the levels of disclosure by companies. Finally, it examines the failure of the Egan management to undertake strategic planning, suggesting that much of this was due to Egan's own obduracy in regard to strategic issues, which was only modified as a result of the exogenous force represented by the failure of the XJ40, but which, ironically, made the take-over by Ford inevitable.

As will be seen, much of the analysis presented in this chapter is based on information obtained from personal interviews. Given the subject matter of this chapter, it could not be otherwise. However, in arriving at the views presented here, care has been taken to be aware of personal bias, particularly old animosities or personal bitterness, and to triangulate wherever possible. What has been reassuring here is the degree of unanimity among interviewees in regard to a range of what might be regarded as fairly sensitive issues. The author, therefore, has a considerable degree of confidence in the soundness of the analysis presented in this chapter.

4.2 Jaguar in the Egan Era – Renascence; Prosperity; Labefaction

In addressing an audience of City analysts in March 1989 following the announcement of Jaguar's extremely disappointing financial results for the year to 31st December 1988, Egan announced that the company was now entering the third stage of its evolution, identifying the three phases of development as being the following:

- First Stage, lasting from 1980 to 1982, involving turning around the company and creating a viable product. This was the period of Jaguar's renascence.

- Second Stage, from 1983 to 1988, dedicated to creating a viable company. Here, according to Egan, it had been recognised that Jaguar needed to sell at least 50,000 units per annum to fully fund its research and development requirements. During this stage, the company had been privatised, it had introduced an all-new car (the XJ40), built a research and development facility, had substantially modernised its equipment, and built up a worldwide sales network. The target of 50,000 cars had been achieved, but satisfactory profits had not been achieved due to adverse currency exchange rates. Even so, this was a period of considerable prosperity for Jaguar in terms of sales, and, until 1988, in terms of profits.

- Third Stage, in which the focus was on better managing the business as the company entered a period of significant financial difficulty. According to Egan, the problems caused by adverse currency exchange movements, "had dragged the company into doing the right things". In this stage £50million per annum would be taken out of the cost base, of which some £20million/£30million had been identified.[2]

Egan had never previously talked publicly about phases of development of the company, or the company's objectives in each, and this statement, coming at a time when the company had just reported a 51% decline in pre-tax profits, as may be seen in Table 4.3 below (page 113), was aimed undoubtedly at reassuring investors that the management were taking steps to cope with the difficulties resulting from factors beyond their control, especially adverse currency exchange rates. This statement is notable for two particular aspects. First, it was the first public admission that Jaguar's management, once heralded as a model of successful British management, could "better manage" the business. Second, it provides an example of Jaguar's well-developed disinformation and obfuscation skills that are discussed, in particular, in the following three chapters of this

[2] City Analysts Results Briefing Meeting, 16 March 1989. (Author's own contemporaneous notes).

thesis. As will be shown, Jaguar's problems were innate, and were exacerbated by the failure of the Egan management to undertake necessary cultural adjustments. Fortuitously, adverse currency movements provided a convenient smokescreen for the downturn in profits, and enabled the nature and extent of its more deep-rooted problems to be disguised.

Even so, the era of the Egan management may be conveniently discussed in terms of three distinct periods, defined by demonstrable patterns of profitability, and two major events that would determine the company's fate: the launch of the XJ40 in 1986/1987 that would prove to be the catalyst for the company's downfall, and the takeover bid by the Ford Motor Company in 1989. These five elements in the Jaguar story are summarized and discussed chronologically in the sub-sections that follow.

4.2.1 The Reversal of Decline, 1980 to 1983

John Egan joined Jaguar at a low point in its fortunes, the impact of quality problems in terms of the poor physical characteristics of the cars, described in Section 7.6 below, and the impact of a severe economic recession, having resulted in sales falling to a twenty-year low in 1979, shown in Figures 3.3 and 3.5 above. Moreover, as described in Chapter Three, the business was suffering from years of inadequate investment and neglect, it lacked a senior management team, with the major business functions such as marketing and sales and accounting being undertaken by BL, and had a de-motivated workforce[3], half of which was on strike over BL-imposed new work practices on the day Egan joined the company.[4] Egan's remit, as recounted by Edwards[5], was to return the company to profitability, or to supervise its closure.

In Section 3.7 above it was described how BL had reduced what was once the Jaguar company to little more than an assembly plant, but allowed it to retain its own engineering department. The new company set up by Michael Edwardes, and which Egan was brought in to head in April 1980, was to undertake the management of the Jaguar and Daimler brands, and the Browns Lane and Radford factories. In July 1980, the Castle

[3] Thoms, David, and Donnelly, Tom. *The Coventry Motor Industry: Birth to Renaissance?* Second Edition (Aldershot, 2000). p206.
[4] Underwood, John. *The Will to Win. John Egan and Jaguar.* (London, 1989). p63.
[5] John Edwards. Interview with the author. November 2002 and October 2003. *Appendix* p50.

Bromwich plant, which undertook car body assembly and paint, was added to Egan's responsibilities. His task was to re-construct a discrete organization, and build a new senior management team, there being only a manufacturing and an engineering operation in place when he joined.[6] But until 1984, Jaguar remained a company wholly-owned by BL, and for the first one or two years of Egan's management little could be done without the approval of BL executives. In this regard, Mike Dale, in charge of Sales and Marketing for Jaguar-Rover-Triumph Inc (JRT Inc), and then Jaguar Inc., related how in 1981 they had to obtain the permission of the Head of BL International, to whom JRT Inc., BL's, and hence Jaguar's, North American distributor, reported at that time, before they could re-enter TransAm racing.[7] By the middle of 1982 Jaguar had achieved a great deal of autonomy from BL, Egan stating that, "The only functions that we get from BL are a treasury function on funding, and centralized wage bargaining. Otherwise we do our own thing".[8] However, it would not be until 1983 that ownership of JRT Inc, renamed Jaguar Inc, would be transferred from BL to Jaguar.[9]

With his own team in place, Egan set about identifying and tackling the major problems impacting on Jaguar, including poor vehicle quality, production, especially the problems with the paint process, labour relations, and labour productivity. These aspects are detailed in Chapters Six and Seven. Employee numbers were reduced by 19.5% between 1980 and 1982, although they increased again in 1983 as car output increased. In parallel with this considerable task there was a significant PR programme which successfully projected the image of Jaguar as a company with a rejuvenated manufacturing operation, that had overcome the dominance of the trade unions, and consequent bad work practices, and which had resolved many of the quality issues, and thus re-established the image of the Jaguar car as a high quality, reliable product. This is examined in Sub-Section 4.3.1 below.

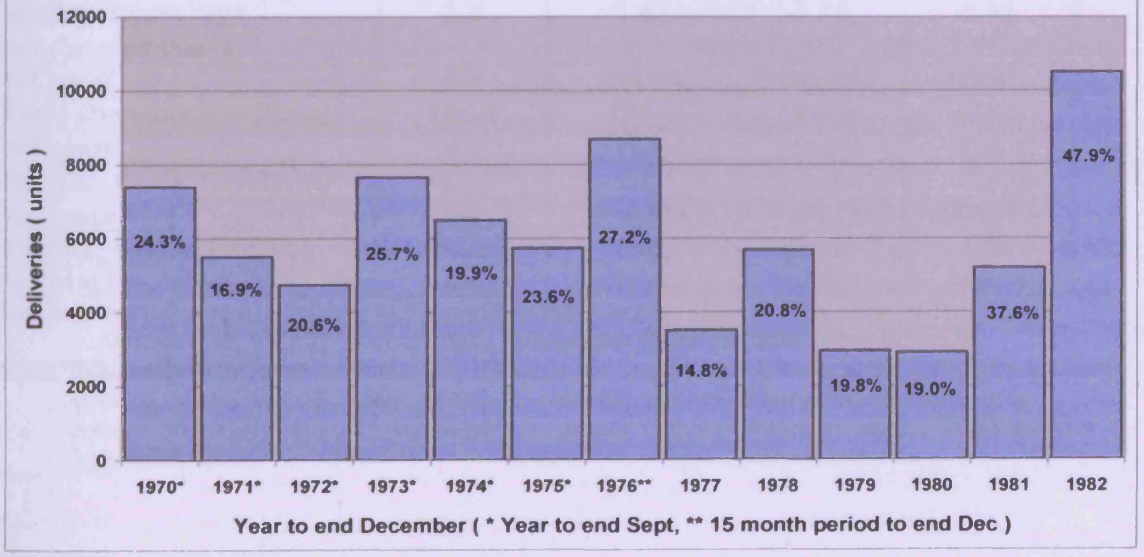
The perception that the quality issue had been resolved was the key element in turning around Jaguar's fortunes, for it was Egan instilling confidence in the JRT Inc's sales team that quality and delivery were no longer problems, that resulted in them in turn

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[6] John Egan. Interview with the author. October 2007. *Appendix* p65.
[7] Mike Dale Interview with the author. June 2007. *Appendix* p45.
[8] John Egan Interview. *Automotive News*. 17 May 1982.
[9] *Automotive Age*. October 1985.

re-motivating the US dealer body, although Egan had considered transferring the US distributorship to Lincoln Mercury, as revealed in Section 5.6 below. Here, it is of note that JRT Inc was an established BL-owned distribution operation that had largely focused on MG and Triumph cars, but when these were discontinued was left with only Jaguar to sell. This removal of the greater part of its business, and the quality and delivery problems suffered by Jaguar, had de-motivated the sales force and dealers alike.[10] Indeed, Jaguar in 1980 did not appear to be a worthwhile franchise, its US sales having halved between 1976 (which at an annualized 7,384 units were at a near record high) and 1980 (a year when Jaguar experienced its lowest level of US sales since 1954), as can be seen from Figure 4.1. The recovery, however, once began was impressive, for whilst the 55% increase in US sales in 1981, albeit from the 25-year low suffered in 1980, was remarkable, the real breakthrough was achieved in 1982 when Jaguar recorded a 120% increase in its US sales, the 10,349 cars sold being a US sales record for Jaguar, and for the first time its US sales exceeded those in the UK. Although the US had long been an important market for Jaguar, sales there had never previously exceeded 30% of total

Figure 4.1: Deliveries to The USA and US Deliveries as % of Total Deliveries, 1970 to 1982.



Source: Whyte. pp241, 247

[10] Mike Dale Interview. *Appendix.* pp32,39.

worldwide sales.[11] From 1981, however, the pattern of Jaguar's overall sales would be determined by US sales, but that also made Jaguar subject to the vagaries of fluctuating currency exchange rates to an extent never before experienced.

The extent of Jaguar's recovery is illustrated by the change in the main financial and volume measures shown in Table 4.1.

Table 4.1: Changes in Main Financial and Volume Measures, 1980 to 1983

Year to 31st December:	1980	1981	1982	1983
Total Retail Sales (units)	15,011	15,562	21,619	29,175
% Change	+2.3%	+3.7%	+38.9%	+35.0%
US Retail Sales (units)	3,029	4,695	10,349	15,815
% Change	-19.1%	+55.0%	+120.4%	+52.8%
US Retails as % of Total	*20.2%*	*30.2%*	*47.8%*	*54.2%*
Total Wholesales (units)	15,469	13,933	21,007	28,467
% Change	n/a	-9.9%	+50.8%	+35.5%
US Wholesales (units)	2,518	5,154	9,971	15,260
% Change	n/a	+104.7%	+93.5%	+53.0%
US Wholesales as % of Total	*16.3%*	*37.0%*	*47.5%*	*53.6%*
Production (units)	13,360	14,677	22,042	28,041
% Change	-4.5%	+9.8%	+50.2%	+27.2%
Total No. Employees (at year end)	9,725	8,285	7,832	8,606
% Change	n/a	-14.8%	-5.5%	+9.8%
Cars produced per employee (average number for year)	1.4	1.63	2.74	3.41
% Change	n/a	+16.4%	+68.1%	+24.5%
Total Revenue (£million)	166.4	195.2	305.6	472.6
% Change	n/a	+17.3%	+56.6%	+54.6%
Pre Tax Profit (£million)	-47.3	-31.7	9.6	50.0
% Change	n/a	+33.0%	+130.3%	+420.8%
Exchange Rate US$=£1	2.32	2.02	1.75	1.51
% Change	n/a	-12.9%	-13.4%	-13.7%

Sources: Jaguar Annual Reports and Accounts 1984; Jaguar Offer for Sale document 1984; Datastream; SMMT internal files; Automotive News 100 Year Almanac 1996.

Note: "Wholesales" are those sales made by Jaguar to distributors and dealers, whilst retail sales are those made by dealers to the end user. As may be seen, the two sets of figures do not necessarily correspond, largely due to timing differences. Jaguar's reported revenues and profits are derived from wholesales.

[11] Whyte, Andrew. *Jaguar. The definitive history of a great British car.* Second Edition. (Wellingborough, 1985). pp241,247.

The return to profitability in 1982 was particularly noteworthy, as was the further advance of profits in 1983. During this time, as may be seen, most of the advance in sales came from the USA, where a strong advertising and PR campaign did much to overcome the poor quality and reliability image that had become associated with Jaguar cars in the late 1970s. With the increased importance of the USA in Jaguar's geographical sales mix, the weakness of Sterling became an important factor in the company's profitability.

4.2.2 Halcyon Days, 1983 to 1987

This period marked the high point of Jaguar's fortunes under Egan, with sales, and profits, reaching new heights, as shown in Table 4.2. Indeed, sales, as measured in terms of deliveries, had never previously surpassed the 32,589 units achieved in 1971.[12] Key to this continual improvement was the US market, which became Jaguar's main market, accounting for more than 50% of total sales over this period, the slight drop in US sales in 1987 resulting from supply constraints following the launch of the XJ40 rather than a downturn in demand.[13] However, and contrary to the view expressed by Whipp *et al* mentioned in Section 1.2 above, the main impetus to increased profits was the strengthening of the US Dollar against Sterling, as discussed in Section 8.3.3 below, resulting in Jaguar obtaining a greater proportion of its profits from currency movements than it did from manufacturing and selling motor vehicles. Indeed, over half Jaguar's peak pre-tax profits, achieved in 1985 and 1986, resulted from movements in the US Dollar[14], something Jaguar was careful to conceal. In 1985, Jaguar began a currency hedging programme which enabled it to protect some of its US Dollar, and other foreign currency, revenues when Sterling strengthened again after 1985.[15]

The period 1983-1987 also witnessed two significant events: the privatization of the company in 1984, and the launch of the new saloon, the XJ40, in 1986 (in the UK) and 1987 (in the USA), discussed in Section 4.2.3 below.

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[12] *Ibid.* p241.
[13] Jaguar Annual Report and Accounts 1987. p17.
[14] John Edwards Interview *Appendix p52*; Roger Putnam Interview with the author November 2006. *Appendix* p118.
[15] John Edwards Interview. *Appendix* p52.

The success achieved by Jaguar by 1983 gave it a significant financial worth which the Thatcher Government seemed anxious to realize in order to reduce BL's high level of debt.[16] The revitalized, and now profitable, Jaguar became of acquisitive interest to other motor companies such as General Motors and BMW, both of which made approaches to the company. These were rebuffed by Egan[17], and by a government anxious to avoid the political fallout from the sale of a British icon to a foreign company.[18] Ray Horrocks, the Group Chief Executive of BL Cars, claimed at the time

Table 4.2: Changes in Main Financial and Volume Measures, 1983 to 1987

Year to 31st December:	1983	1984	1985	1986	1987
Total Retail Sales (units)	29,175	33,429	37,732	40,971	46,643
% Change	+35.0%	+14.6%	+12.9%	+8.6%	+13.8%
US Retail Sales (units)	15,815	18,044	20,528	24,464	22,919
% Change	+52.8%	+14.1%	+13.8%	+19.2%	-6.3%
US Retails as % of Total	*54.2%*	*53.9%*	*54.4%*	*59.7%*	*49.1%*
Total Wholesales (units)	28,467	32,956	37,952	41,256	49,200
% Change	+35.5%	+15.7%	+15.1%	+8.7%	+19.3%
US Wholesales (units)	15,260	18,216	20,130	24,901	21,233
% Change	+53.0	+19.3%	+10.5%	+23.7%	-14.7%
US Wholesales as % of Total	*53.6%*	*55.3%*	*53.0%*	*60.4%*	*43.2%*
Production (units)	28,041	33,437	38,500	41,437	48,020
% Change	+27.2%	+19.2%	+15.1%	+7.6%	+15.9%
Total Employees (average for year)	8,219	9,516	10,441	11,324	12,483
% Change	+2.0%	+15.8%	+9.7%	+8.5%	+10.2%
Cars produced per employee (average number for year)	3.41	3.60	3.69	3.66	3.85
% Change	+24.5%	+5.6%	+2.5%	-0.8%	+5.2%
Total Revenue (£million)	472.6	634.1	746.5	830.4	1,002.1
% Change	+54.6%	+34.2%	+17.7%	+11.2%	+20.7%
Pre Tax Profit (£million)	50.0	91.5	121.3	120.8	97.0
% Change	+420.8%	+83.0%	+32.6%	-0.4%	-19.7%
Exchange Rate US$=£1	1.51	1.34	1.30	1.47	1.64
% Change	-13.7%	-11.3%	-3.0%	+13.1%	+11.6%

Sources: Jaguar Annual Reports and Accounts 1984 to 1987; Jaguar Offer for Sale document 1984; Datastream; SMMT internal files; Automotive News 100 Year Almanac 1996.

[16] Underwood. *op.cit.* p123.
[17] John Edwards Interview. *Appendix* p52.
[18] Underwood. *op.cit.* p127.

that it was the BL board's decision to divest Jaguar[19], but both John Edwards, Jaguar's Finance Director throughout the 1980s, and Hamish Orr-Ewing, Jaguar's Chairman at the time of the privatization, both of whom were closely involved with the flotation, disagree. Indeed, both are adamant that it was a government-led decision, but instigated by Egan[20], who was thought, at least by BL, to be close at the time to Mrs Thatcher, the Prime Minister.[21]

What is fairly certain is that Egan was anxious to break free from the shackles of BL, for whom he appeared to have a particular animus[22], and to have complete independence in running Jaguar.[23] Egan's preferred route to independence was a management buy-out, but this was opposed by the BL board.[24] In turn, BL's attempt to retain a 25% holding in a privatized Jaguar was blocked by the government, possibly as a result of representations by Egan. The successful flotation of the company's shares on the London Stock Exchange in August 1984 raised £297million, all of which benefited BL, and indirectly the government. The company, however, was privatized with the government retaining a "Golden Share" which limited individual shareholdings in the company to 15% in its first five years as a privatized company, thus preventing any takeover of Jaguar. But the government's early release of the "Golden Share" paved the way for the Ford take-over, discussed in Sub-Section 4.2.5 below. The implications of Jaguar being a quoted company and its relationship with the City is discussed in detail in Chapter Nine.

4.2.3 The Defining Moment – The XJ40 Debacle

In 1986 Jaguar launched the XJ40 saloon, an event which was to determine its future existence as an independent motor company, since it was a product that, according to Scheele, "nearly brought the company to its knees".[25] Indeed, in the six years to the end

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[19] "Trade and Industry Select Committee. BL plc. Third Report, together with the proceedings of the Committee relating to the Report and the Minutes of Evidence". *Parliamentary Papers*. 1983-84. vol XL (**HC 490**). Q74.p10.

[20] John Edwards Interview. *Appendix* p52; Hamish Orr-Ewing. Interview with the author. November 2002. *Appendix* p113.

[21] Hamish Orr-Ewing Interview. *Appendix* p111.

[22] Hamish Orr-Ewing Interview. *Appendix* p108.

[23] Underwood. *op.cit.* p122.

[24] *Ibid.* p127.

[25] Nick Scheele. Interview with the author. May 2007. *Appendix* p130.

of 1994 Jaguar reported pre-tax losses amounting to a total of £735.2million, even after considerable capital had been injected into the company by Ford from 1990 onwards.[26] As discussed in Section 7.7 below, the much-heralded new car suffered from appalling quality defects, largely as a result of engineering design faults but exacerbated by problems in manufacturing, these being aspects that were not recognized or challenged by Egan, largely due to his own shortcomings, which were later to be acknowledged by him[27], and which are discussed in Sub-Section 4.3.3 below. The problems with the XJ40 had a severe impact on Jaguar's profitability, resulting both from lower US sales volumes and from significantly higher warranty costs.

4.2.4 Reversal of Fortune, 1987 to 1989

In this period, Jaguar's revenues were adversely affected by lower sales, particularly in the US, as a result of the XJ40's quality problems and the strengthening of Sterling, while profits were diluted as a result of lower revenues and higher costs, discussed in Section 8.4 below. In 1989 Jaguar produced a pre-tax loss of £58.3million, as is shown in Table 4.3.

But it was not until late 1988, when the potential loss situation in 1989 became apparent, that Jaguar appreciated the urgency of addressing its cost base, and put in train a cost reduction programme aimed at reducing its costs by £50million in 1989, and some 5% per annum thereafter. Such was the strength of the illusion created by Jaguar, and its ability to mask its problem areas, that Jaguar's explanations of its sales and profits downturn at this time being due to the overall decline in US demand for luxury cars and the strength of Sterling were accepted, seemingly without question, by many media and City commentators.[28]

[26] Jaguar Annual Reports 1989-1994.
[27] Andrew Lorenz. Interview with the author. August 2007. *Appendix* p104.
[28] For example: *The Independent* 27 August 1988; *Financial Times* 27 August 1988; *Financial Times* 7 January 1989; *Financial Weekly* 12 January 1989; *The Engineer* 2 February 1989; Barclays de Zoete Wedd Investment Circular 23 March 1988; County NatWest Woodmac Investment Circular 17 March 1989.

4.2.5 The Ford Takeover

After 1987 it became apparent that Egan would have to overcome his obduracy in regard to Jaguar retaining its independence, Egan at that time starting to realize that Jaguar did not have the resources, and could not generate sufficient cash, to remain a totally independent car company. Even so, he was not prepared to completely change his stance

Table 4.3: Changes in Main Financial and Volume Measures, 1987 to 1990

Year to 31st December:	1987	1988	1989	1990
Total Retail Sales (units)	46,643	49,494	46,600	42,000
% Change	+13.8%	+6.1%	-5.8%	-9.9%
US Retail Sales (units)	22,919	20,727	18,967	18,728
% Change	-6.3%	-9.6%	-8.5%	-1.3%
US Retails as % of Total	*49.1%*	*41.9%*	*40.7%*	*44.6%*
Total Wholesales (units)	49,200	50,603	47,668	41,985
% Change	+19.3%	+2.9%	-5.8%	-11.9%
US Wholesales (units)	21,233	20,787	n/a	n/a
% Change	-14.7%	-2.1%	n/a	n/a
US Wholesales as % of Total	*43.2%*	*41.1%*	*n/a*	*n/a*
Production (units)	48,020	51,937	48,937	41,883
% Change	+15.9%	+8.1%	-5.8%	-14.4%
Total Employees (Average for year)	12,483	12,835	12,385	12,259
% Change	+10.2%	+2.8%	-3.5%	-1.0%
Cars produced per employee (Average number for year)	3.85	4.05	3.89	3.42
% Change	+5.2%	+5.2%	-4.0%	-12.1%
Total Revenue (£million)	1,002.1	1,075.5	1,139.7	1,016.1
% Change	+20.7%	+7.3%	+6.0%	-10.8%
Pre Tax Profit (£million)	97.0	47.5	-58.3	-66.2
% Change	-19.7%	-51.0%	-222.7%	-13.6%
Exchange Rate US$=£1	1.64	1.78	1.64	1.77
% Change	+11.6%	+8.5%	-7.9%	+7.9%

Sources: Jaguar Annual Reports and Accounts 1987 to 1990; Jaguar Offer for Sale document 1984; Datastream; SMMT internal files; Automotive News 100 Year Almanac 1996.

in this regard since retaining some degree of independence remained important to him.[29] This view was confirmed by Blythe, who recounted that Egan had been "robust in his wanting to be independent and, therefore, when he got continued approaches from Ford he simply said he wouldn't talk about it"[30], whilst Orr-Ewing opined that Egan "sincerely

[29] John Edwards Interview. *Appendix* p54.
[30] Bruce Blythe Interview. *Appendix* p21.

believed that Jaguar would be able to remain indefinitely an independent company".[31] Thus in 1988 he started looking "at whether there was some kind of relationship with an excellent car company that we could control".[32] Egan's ideal was to develop a relationship with Toyota, but when that company showed no interest, Egan started talking to General Motors because its decentralized management structure would have allowed him to retain some degree of independence.[33] Edwards relates that the deal would have entailed Jaguar having a Rights Issue, with General Motors buying the issue, perhaps 40% of the enhanced total issued share capital, with the rest remaining in general issue[34], the money raised being used to develop a new model.[35] However, according to Edwards, "the General Motors deal would have been a disaster for the [Jaguar] shareholders"[36] because it was essentially giving General Motors the company for 40% of its increased value, a move that would not be maximizing shareholder value.[37]

In 1988 the Ford Motor Company had approached Jaguar with a view to acquiring it, but had been rebuffed by Egan[38] who appeared to have an especial animosity towards Ford, Edwards quoting him as saying "I hate the Ford Motor Company".[39] However, when Ford discovered that Jaguar was having talks with General Motors in the Summer of 1989 they again targeted the company, after Petersen, the Chairman of Ford, had publicly declared his interest in acquiring Jaguar in an interview with the *Chicago Tribune* in June 1989.[40] Ford had been interested only in an agreed deal[41], but the spectre of General Motors acquiring Jaguar provided the impetus for Ford to make a hostile bid for the company.[42] Ford's purchase of 15% of Jaguar's shares in the stock market in October 1989, and the government's suspension of the Golden Share, left Egan,

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[31] Hamish Orr-Ewing Interview. *Appendix* p112.
[32] John Egan Interview. *Appendix* p75.
[33] John Edwards Interview. *Appendix* p54; Bruce Blythe Interview. *Appendix* p24.
[34] John Edwards Interview. *Appendix* p54.
[35] John Egan Interview. *Appendix* p69.
[36] John Edwards Interview. *Appendix* p56.
[37] John Edwards Interview. *Appendix* p54.
[38] Alex Trotman. Interview with the author. February 2003. *Appendix* p138.
[39] John Edwards Interview. *Appendix* p54.
[40] Cited in *Financial Weekly*. 1 June 1989.
[41] Alex Trotman Interview. *Appendix* p138.
[42] Bruce Blythe Interview. *Appendix* p24; John Grant. Interview with the author. January 1993. *Appendix* p100.

pressurized also into doing so by his Finance Director[43], with no option but to enter into acquisition talks with Ford. Undoubtedly, the suspension of the Golden Share sent a strong signal to Egan that he no longer enjoyed the government's support, but also demonstrated the power enjoyed by Ford at that time, with both Edwards and Putnam opining that a deal had been agreed between Mrs Thatcher and the Chairman of Ford.[44] Certainly, it is inconceivable that Ford would not have consulted with the government beforehand given that its attempt in 1986 to take over Austin Rover collapsed under the weight of Conservative backbench opposition. Ford had been considerably put out by this rebuff, Trotman recounting that, "we were upset, very upset, and let her [Mrs Thatcher] know that", adding that Ford made it clear to Mrs Thatcher that, as the oldest auto company in Britain, the largest manufacturer in Britain, the biggest employer, and the biggest investor, it did not deserve to be treated with such disdain.[45]

Indeed, Putnam expanding on this view, stated that:

> Ford were powerful enough to pull the Golden Share. There is no doubt they leaned on Maggie [Mrs Thatcher], and Ridley [Secretary of State for Trade and Industry, 1989 to 1990], and that was the beginning of the end. I was actually in John's office, just the two of us, when John got the call from Ridley that they'd pulled the Golden Share. I think you'll find that the potential closure of Dagenham, reduction in Ford investment in the UK, were all wrapped up in this. Again, having spent four years as Chairman of Ford of Britain I know the way those things work.[46]

John Grant, who played a central role in the events leading up to the acquisition, confirmed that the Ford purchase of Jaguar was driven by emotion[47], although it was held out to be a rational business decision. This enabled Egan to drive a hard bargain, Ford paying £1.6billion for Jaguar, of which some £1.1billion was for goodwill.[48] With the benefit of hindsight, Scheele was to comment that, "Ford bought Jaguar almost sight unseen, and what we bought was a can of worms, with no new

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[43] John Edwards Interview. *Appendix* p54.
[44] John Edwards Interview. *Appendix* p55; Roger Putnam Interview. *Appendix* p125.
[45] Alex Trotman Interview. *Appendix* p143.
[46] Roger Putnam Interview. *Appendix* p125.
[47] John Grant Interview. *Appendix* p100.
[48] *Sunday Times* 27 October 1991; *Evening Standard* 2 December 1991.

models in the sausage machine. We paid too much for it. A frigging fortune!"[49] Egan received considerable acclaim in the media for negotiating such a favourable deal for his shareholders, but Lorenz believes additionally that the reason he was able to get such a high price for the company was that "he didn't want to do the deal with Ford. He really didn't want to sell the company. He believed the government would support him".[50]

4.3 Management in the Egan Era

The success or otherwise of an enterprise is usually attributed to the abilities of its management, and it is germane, therefore, to explore the management of Jaguar as practiced by Egan, and the issues relating to that. The term "Management" has been variously defined, the simplest definition being that of Follett, who described it as being "the art of getting things done by people", and may be conveniently evaluated in terms of five functions undertaken by management.[51] These are usually considered to be the planning, leading, organizing, co-coordinating, and controlling of the activities of the organization. Each of these is drawn on as appropriate when exploring the nature and effectiveness of management under Egan in the following five main sub-sections, reviewing the nature of management under Egan, the continued influence of Lyons, the issue of corporate governance, the importance of the PR effort, and strategy and strategic issues.

4.3.1 The Nature of Management under Egan

As revealed in Sub-Section 4.2.1 above, one of Egan's first tasks when he arrived at Jaguar was to build a new senior management team. Two functional departments were already in place, and the heads of both, Mike Beasley, the Head of Manufacturing, who had rejoined Jaguar, from BL, in 1979[52], and Jim Randle, the Head of Vehicle Engineering, having joined Jaguar from Rover in 1965[53], became part of the Egan team. David Fielden, who had spent his entire career with Jaguar Cars was appointed Quality Director, and Patrick Audrain, who had joined Jaguar Cars in 1975, was appointed

[49] Nick Scheele Interview. *Appendix* p137.
[50] Andrew Lorenz Interview. *Appendix* p104.
[51] Boddy, David. *Management An Introduction.* Third Edition. (Harlow, 2005). pp37-68.
[52] Mike Beasley. Interview with the author. February 2003. *Appendix* p4.
[53] Whyte, *op.cit.* p177.

Purchasing Director.[54] Others were recruited externally. John Edwards, who had been Egan's Financial Controller at Massey Ferguson, joined as Head of Finance, and recruited from BL were Neil Johnson (as Sales and Marketing Director), and Kenneth Edwards (as Personnel Director and Company Secretary). Also recruited from BL at this time was David Boole who, as Communications and Public Affairs Director, was to play a pivotal role in the company's affairs over the next decade, as demonstrated in Sub-Section 4.3.4 below, although he was not appointed to the Jaguar Cars board until after privatization in 1984. According to Roger Putnam, also recruited into Sales and Marketing, Neil Johnson was imposed on Egan by BL, Egan having recruited Putnam, from Lotus Cars, for the position of Sales and Marketing Director, a job which was then taken by Johnson.[55] These, along with Graham Whitehead, the Head of North America and a long-time BL employee, and Bob Dover, who joined Jaguar from Rover Group in 1986 as Manufacturing Director when Mike Beasley was promoted to Assistant Managing Director, formed the Executive Committee. Despite the importance placed by Egan on university education[56], of the members of the Executive Committee only Egan and Edwards held university degrees, which was not surprising given BL's "unwillingness to employ graduates"[57], although some of them had professional qualifications.

Recruiting executives externally at this time was undoubtedly not an easy task given that Jaguar had a very uncertain future, with, as Edwards put it, "Michael Edwardes chopping everything out left, right, and centre".[58] Underwood applauded Egan's skill in "bringing together senior managers from outside the company and seasoned executives who had first-hand experience of how Jaguar worked"[59], and Egan was to describe this team as "very capable".[60] However, few of those interviewed for this study seemed to agree with these sentiments, albeit with the benefit of hindsight. Grant,

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[54] Jaguar Offer for Sale document 1984. p9.
[55] Roger Putnam Interview. *Appendix* p117.
[56] John Egan Interview. *Appendix* p67.
[57] Foreman-Peck, James, Bowden, Sue, and McKinlay, Alan. *The British Motor Industry.* (Manchester, 1995). p186.
[58] John Edwards Interview. *Appendix* p48.
[59] Underwood. *op.cit.* p70.
[60] John Egan Interview. *Appendix* p66.

who effectively took control of the team shortly after Ford's acquisition of the company, judged the management to be "really poor", and was shocked to find that:

> There was no management system. There was the company, which by automotive company standards was a small, one would hope cohesive, centrally located, all in the same area, fairly simple company. Two products, all English speaking people, all based within a radius of about five miles of one another. It should have been a very cohesive management team, but it just wasn't. It was very divided. There had been very poor direction of it. There were all kinds of factions within the company, and there was no mechanism for bringing those factions together.[61]

This view is echoed by others who were directly and indirectly involved with the management. Nick Scheele, who took control of Jaguar in 1992, commented that "Jaguar had lots of fiefdoms", with the problems at the engineering/manufacturing interface being the result of "the Jim Randle empire against the Mike Beasley empire. I've heard from lots of people that they were hammer and tongs at each other".[62] Scheele also commented on the existence of the "total antipathy between Browns Lane and the States" stating that "It was total, it was almost total, warfare"[63], a claim that was supported by Mike Dale, who described the relationship as "hostile"[64], and also by Roger Putnam.[65]

It can be argued that such problems were the product of three inter-related factors. These may be seen as being the quality of the team and its individual members (that is, the experience, abilities, and professionalism of the team overall, and of its individual members), the direction, or leadership, given to the team, and the attitude of the team and the team members. These factors are examined in the following three sub-sections.

4.3.1.1 The Quality of the Management Team

Hamish Orr-Ewing, Jaguar's non-executive Chairman at the time of privatization, and the executive Chairman of Rank Xerox since 1979, had been particularly unimpressed with

[61] John Grant Interview. *Appendix* p85.
[62] Nick Scheele Interview. *Appendix* p135.
[63] Nick Scheele Interview. *Appendix* p136.
[64] Mike Dale Interview. *Appendix* p32.
[65] Roger Putnam Interview. *Appendix* p117.

Egan's management team, remarking that, "By the standards that I was used to in Xerox they were very ordinary people".[66] Dale described the Jaguar management team as "inexperienced" and "incompetent"[67], citing management inability as his reason for opposing the proposed Jaguar takeover of Land Rover in 1987[68], while Martin Bennett, a leading US Jaguar dealer, commented that at the time of the XJ40 launch, "The company was an absolute bloody shambles".[69] Blythe believed that one of Egan's main problems was that "he just didn't have the depth of talent to be able to implement his wishes".[70] Indeed, certain members of the team were prepared, with hindsight, to admit their shortcomings, Edwards citing his own lack of experience as a finance director[71], and Beasley confessing to management's naivety, failing to understand "the full magnitude of some of the things we were doing"[72], and lacking in "process disciplines, know-how, and management skills".[73] Dale in retrospect appreciated that, "the company just didn't have the resources, but neither did we, from John [Egan] downwards, understand that we didn't have them because none of us had ever been in a car company before, not a real one anyway".[74] Scheele added that the Jaguar management "never kept pace with the massive changes that had happened in the 1980s when, really, western manufacturers started to wake up to modern quality control methodology".[75]

Jim Randle, in retrospect, was seen to have been lacking the skills and experience to have undertaken the role of head of vehicle engineering, Edwards perceiving him as being "a very clever man, but not much of a practical engineer".[76] Orr-Ewing, who as Light Car Planning Manager at Ford in the early 1960s had headed the Cortina project team, saw Randle as "a very good conceptual engineer, but not particularly good at getting things done", adding that "I always felt that the spring was

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[66] Hamish Orr-Ewing Interview. *Appendix* p114.
[67] Mike Dale Interview. *Appendix* p33.
[68] Mike Dale Interview. *Appendix* p42.
[69] Martin Bennett. Interview with the author. July 2008. *Appendix* p14.
[70] Bruce Blythe Interview. *Appendix* p20.
[71] John Edwards Interview. *Appendix* p49.
[72] Mike Beasley Interview. *Appendix* p10.
[73] Mike Beasley Interview. *Appendix* p5.
[74] Mike Dale Interview. *Appendix* p41.
[75] Nick Scheele Interview. *Appendix* p132.
[76] John Edwards. Telephone conversation with the author. 5 December 2006. *Appendix* p53 n73.

only half wound out".[77] Mike Dale, echoing this sentiment, pointed out that much of the problem concerning the launch of the XJ40 was that Randle "had no training in producing a car for production".[78] Edwards supported this view, noting that, "at that point in time [1986] we'd not launched a new car for fifteen/twenty years. So it was a lack of experience, and none of us realising it at the time".[79] Inexperience was a particular problem for Egan himself for, apart from anything else, he had, as Scheele opined, no comparisons, no experience of similar situations.[80]

Even so, in two particular areas Jaguar's management proved to be extremely competent and achieved considerable success. These were in the spheres of public relations, where David Boole undoubtedly achieved a great deal, as discussed in Sub-Section 4.3.5 below and in various places in the following chapters, and in distribution and dealer relationships, discussed in Sub-Section 5.6.2 and Section 5.7 below, where, according to Grant, Jaguar did an outstanding job on improving the quality of its distribution network, particularly in the USA.[81]

But information systems were deficient, John Grant relating:

> By the time we [Ford] got there the accounting was actually in reasonably good shape. The technical book-keeping was in good shape. The control over costs was not, the planning of costs was absolutely not, the ability to control the costs of the new model programme was nonexistent. In fact, the ability to control anything on the new model programme was virtually nonexistent whether it was cost, or investment, or timing, or content, or achievement of objectives, or whatever.....I think that probably costs had got out of control.[82]

Scheele, supported this view, noting that although Ford were still producing the Series III up to 1992 for the US market, "We [Ford] didn't really know what the Series III manufacturing costs were....It was pretty clear that they were horribly expensive", and added that "the XJ-S was fundamentally an early 1950s design, stretched and stretched, it had manufacturing inefficiencies coming out of its ears, but we didn't

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[77] Hamish Orr-Ewing Interview. *Appendix* p114.
[78] Mike Dale Interview. *Appendix* p34.
[79] John Edwards Interview. *Appendix* p59.
[80] Nick Scheele Interview. *Appendix* p132.
[81] John Grant Interview. *Appendix* p94.
[82] John Grant Interview. *Appendix* p95.

know their cost. There were no systems integrations – none of that started until 1992".[83] Moreover, Jaguar appeared to have had little understanding of the nature and extent of the quality issue, and the consequent warranty problem, Beasley admitting that, "We didn't have the data to know. That's the worrying thing now, looking back with the benefit of wonderful hindsight. We had a warranty system which was designed to pay the money, not designed to give you data on what the issues were".[84] The lack of analytical ability was fairly widespread in Jaguar, and may be seen as evidence of a lack of professionalism, Grant relating that:

> They didn't have an attitude that was receptive to analysing things. When we got there, there was a lot of opinion being expressed by management but virtually no analysis to back up the opinion. When the analysis was asked for and subsequently delivered fifty per cent of the time the opinions were dead wrong.[85]

Dale recounted how challenges by Bill Hayden, the Ford Vice President who was appointed to head Jaguar in 1990, would expose management's weaknesses:

> [David Boole] would make the kind of statement that BL would make. You know, 'Well, customer satisfaction is much easier to achieve when you sell lower-priced cars'. I remember Bill saying 'What data do you have to prove that?', and David was stumbling all over the place.[86]

Lorenz, echoing Blythe's view stated above, believed that Egan did not have the right team[87], but, as suggested in Chapter Three, Egan, who for his first four years at Jaguar was part of, and subject to, the broader BL organizational structure, appears to have seen nothing wrong with Jaguar's management institutions when he arrived at the company. In part this was likely to have been the result of his own shortcomings, for as Edwards was to observe "He [Egan] was deficient in engineering and manufacturing experience"[88], something that Egan post the Ford takeover was to admit to Lorenz, when in relation to the problems at Jaguar that had become apparent he confessed that, "It

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[83] Nick Scheele Interview. *Appendix* p136.
[84] Mike Beasley Interview. *Appendix* p7.
[85] John Grant Interview. *Appendix* p95.
[86] Mike Dale Interview. *Appendix* p47.
[87] Andrew Lorenz Interview. *Appendix* p104.
[88] John Edwards Interview. *Appendix* p59.

wasn't my fault. I knew so little about manufacturing".[89] As a result, ingrained attitudes not only persisted in the company, particularly at lower shop floor management levels hardly touched by the BL restructuring, but were reinforced by the recruitment of managers from BL.

As indicated above, with the exception of Egan, Edwards, and Putnam, all the members of the senior management team were long term Jaguar or BL employees, and had little reason to modify their behaviour or existing structures. Egan appeared to be happy with the senior management team, with the exception of Randle following the revelation of the problems with the XJ40. Unlike Iacocca, with whom Egan was frequently compared, who had fired thirty-three of his thirty-five senior managers in his first three years at Chrysler[90], Egan's team remained in place throughout his tenure, the exception being Neil Johnson who left in 1986 to rejoin the army.[91] However, Edwards relates that Egan had sought to replace Randle, but had not been able to do so.[92] Ford seemed less impressed with Egan's senior management team, half of whom, including Randle, had been fired by the time Scheele arrived at Jaguar at the beginning of 1992.

The cultural inflexibility evident in the senior management structure was apparent also in other management structures within Jaguar, particularly at the factory level, which Ainsworth described as being "dysfunctional"[93], resulting in poor discipline, deficiencies in manufacturing systems, and the continuance of outmoded work practices.

4.3.1.2 Leadership of the Management Team

As mentioned earlier, leadership is seen as an important function of management, but effective leadership requires the ability to co-ordinate, control, and organize the activities of the organization. Success here, it may in turn be argued, depends on the leader's knowledge, skills, and experience, and the information made available to him by his team and their subordinates. Egan's charismatic personality also played an important part, as is discussed in the following sub-sections.

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[89] Andrew Lorenz Interview. *Appendix* p104.
[90] Iacocca, Lee. *Iococca. An Autobiography.* (New York, 1984). p156.
[91] Roger Putnam Interview. *Appendix* p117.
[92] John Edwards Interview. *Appendix* pp55-56.
[93] Bob Ainsworth. Interview with the author. October 2003. *Appendix* p2.

Egan was appointed on the basis of his track record as a manager of businesses in general, as was the case with Edwardes' appointment at BL, rather than on, as was the case with the appointment of Iacocca at Chrysler, a reputation built up in the motor industry. However, as noted in the previous section, Egan knew little about manufacturing, let alone motor manufacturing, knew nothing about vehicle engineering and, according to Orr-Ewing, "was not particularly well-informed on the motor industry".[94] Such deficiencies put him at a considerable disadvantage, for consequently, according to Blythe, Egan might have been aware of problems, but "was less able to figure out how to fix them. I think he could get on the backs of his operating executives and say 'By God Joe you've got to fix this; Ian, you can't let that go on' as opposed to saying 'Ian, here's exactly what I want you to do to fix this problem'".[95] Exacerbating this situation, according to Lorenz, was that Egan "didn't know his own limitations", something that Egan later admitted.[96] The corollary to this was that Egan appeared not to know the limitations of his subordinates, especially Randle, and was not in a position, therefore, to take appropriate action. Consequently, he had no option but to trust his management team, and felt let down, by Randle in particular, when the extent of the problems became known.[97]

Putnam indicated that there were three problems in regard to engineering. First, Randle ran the engineering function as a fiefdom, and "there wasn't quite the process and discipline in place to make sure that engineering were doing what they should have been doing".[98] Here, Egan observed that he thought Randle did not listen "very carefully to the feedback from all the testing we did on XJ40"[99], and Bennett reported that Randle "would never discuss the problems with the car".[100] Second, according to Putnam, Randle used to talk "gobbledegook engineering", tying Egan up in knots, and Egan just "didn't know enough about engineering to actually take him [Randle] on".[101] An example of this was related by Scheele in regard to the problem of the

[94] Hamish Orr-Ewing Interview. *Appendix* p112.
[95] Bruce Blythe Interview. *Appendix* p22.
[96] Andrew Lorenz Interview. *Appendix* p104.
[97] John Edwards Interview. *Appendix* p59.
[98] Roger Putnam Interview. *Appendix* p122.
[99] John Egan Interview. *Appendix* p72.
[100] Martin Bennett Interview. *Appendix* p13.
[101] Roger Putnam Interview. *Appendix* p124.

XJ40 windscreen wiper mechanism lifting off the windscreen at higher speed, Randle attributing this to "ionization" of the windshield, an explanation that Scheele regarded as "a load of old codswallop!"[102] It was, in fact, a problem that resulted from having a single windscreen wiper, and was solved by introducing two wipers. Finally, Egan, according to Putnam, was in awe of Randle's reputation with the motoring journalists, and was afraid that Randle's credibility was such that his leaving would damage Jaguar's image.[103] That there was such concern is hardly surprising given Egan's focus on PR, but, as Putnam wryly remarked, "Ford got rid of Jim without a whimper".[104]

There was a similar problem with the manufacturing operation, Egan apparently failing to appreciate the problems of Jaguar's antiquated plant, and the poor manufacturing systems and discipline, discussed in Sub-Sections 6.4.1 and 6.4.2 below. This was confirmed by Egan's reaction to the "Transition Report" prepared by a team of both Ford and Jaguar personnel following the Ford takeover, Grant recounting that:

> It was incredibly damning. In the space of sixty days an awful lot of warts were uncovered. John Egan had a very hard time accepting that report and was eventually persuaded by his people that he had no option. It was factual. He thought it was exaggerated, inflated. He couldn't accept it at all. He was forced to roll over because he had no one to fight his battle for him; all the Jaguar people accepted it.[105]

Apart from his own lack of experience, much of Egan's problem with engineering and manufacturing stemmed from the fact that he allowed them to operate as fiefdoms, as mentioned above, with a number of the problems of the XJ40 being attributed by Scheele to the fact that "engineering didn't talk to manufacturing, and vice versa".[106] Dale went further than this, stressing the need for "sales and marketing, engineering, manufacturing, and quality and styling all working together", something which was not happening under Egan.[107] This is evidence of the deficiencies of the Egan

[102] Nick Scheele Interview. *Appendix* p132.
[103] Roger Putnam Interview. *Appendix* p124.
[104] Roger Putnam Interview. *Appendix* p124.
[105] John Grant Interview. *Appendix* p101.
[106] Nick Scheele Interview. *Appendix* p130.
[107] Mike Dale Interview. *Appendix* p47.

management in that there was little effective co-ordination and control of the company's activities.

Finally, it is debatable as to how aware Egan was of the issues that impacted adversely on the company. Certainly, Egan had the tendency, as related by both Dale and Bennett, to refuse to accept unpalatable facts, such as the problems in the US with the XJ40, until he had no other alternative, but undoubtedly he often had information concealed from him, perhaps as a result of managers trying to protect their own positions. Randle appears to have suffered from this syndrome, and, Egan came to accept, as revealed by Underwood[108], how he had not always been given an accurate picture of what had been achieved by his (Egan's) much-vaunted Quality Circles. Dale believes that the reasons that Egan had not been fully informed of the XJ40 quality problems when launched in the UK were because, "There was an arrogance about the UK Board which may have blinded them, but I don't think there was anyone in the senior management who had the data, or the courage, to tell John even if they knew".[109] Egan does not dismiss such views, accepting that, "Maybe people were making cooing noises to me. Maybe people weren't used to telling the absolute truth".[110]

4.3.1.3 The Problem of Management Arrogance

It is very apparent that a major problem that developed during the Egan era was that the Jaguar management, as a whole, and in terms of its individual members, became increasingly arrogant, in the sense of being "unduly or overbearingly confident"[111], as a result of Jaguar's rapid and spectacular recovery in the period 1980 to 1983. Edwards described the ambience of that time thus:

> In 1982 we started to make quite a lot of money, and in 1983 we made a sackful because the exchange rate was piling in at the same time and we moved US volume from 2,500 in 1980 to 15,000. This was heroic stuff. We were very pragmatic, quite young but we all thought 'Bloody Hell!'.....We started to believe our own bullshit in the mid-1980s. .....We thought we were the best marketing people in the world, the best manufacturing people, the best engineers.....We

[108] Underwood. *op.cit.* p204.
[109] Mike Dale. e-mail to the author. 13 July 2007. *Appendix* p35 n36.
[110] John Egan Interview. *Appendix* p74.
[111] *Oxford Concise Dictionary*, Eighth Edition (Oxford, 1990).

were getting fame and worldwide recognition beyond our abilities, and beyond what we really deserved.[112]

The success achieved at this time undoubtedly reinforced managerial behaviour, and was manifested in an arrogance that was noted by a number of different observers. Bennett commented that, "Randle was particularly arrogant when it came to that car [the XJ40]"[113], and Blythe was critical of David Boole's attitude when dealing with City analysts, describing his demeanour as "almost an arrogance that had built up because of the success of the company in the last few years".[114] The problem was that arrogance led to complacency, and an unwillingness to consider alternative views, and, therefore, to inappropriate, or incorrect, action or inaction. As stated earlier, Grant found that the Jaguar management did not have an attitude that was receptive to analysing things, and Blythe had found that running throughout the company "was an almost unbelievable lack of knowledge of the competitive world", and, as a result, "Because sales had grown from what they were in 1982/83 to what they were in 1988/89 how could you then convince them that they were ropey?"[115] Bennett recalled that when the US dealers attempted to inform Jaguar of the faults with the XJ40, "Jaguar didn't want to listen. It was a mixture of contempt and indifference".[116]

Grant gave greater illustration to this problem with the example of the ill-fated XJ41 sports car, whose development was cancelled by Ford. Eighteen months after taking over Jaguar, Ford had a post-mortem on the XJ41, because:

> we were examining the processes of how we developed new products and how do we make sure we don't do the things that Jaguar had done with the XJ41 in terms of the factions, in terms of a lot of people in the company knowing it was going in the wrong direction, but yet the management continued down that direction, apparently blinded. Was information getting fed up to the management, and if it was getting fed through then why weren't the management responding to it?[117]

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[112] John Edwards Interview. *Appendix* pp52-53.
[113] Martin Bennett Interview. *Appendix* p13.
[114] Bruce Blythe Interview. *Appendix* p27.
[115] Bruce Blythe Interview. *Appendix* p19.
[116] Martin Bennett Interview. *Appendix* p15.
[117] John Grant Interview. *Appendix* p98.

This investigation revealed:

> that the information had been fed through to the board of directors, at least to the executive group, that they were being told at regular intervals that the objectives that were being set could not be met; that there were not resources in place to achieve those objectives; that the project was impossible. But the message was basically 'Go away and try harder!' They were being told by the guy who was running the project that he couldn't deliver it. They were being told that. There were no secrets. We saw the reports that had been presented that said it can't be done, that we're missing all the targets, and here's the reasons why. And yet they carried on blindfold, jettisoning other products, like the long wheel base XJ40, to support this product which they were told was a no-hoper.[118]

One consequence of this, according to Grant, is that Jaguar "were certainly representing things to the City about this product that they were being told at the same time could not be done".[119]

However, Egan also seemed unwilling to listen, especially in regard to the problems of the XJ40, as related by both Dale[120] and Bennett[121], and had developed a considerable reputation for arrogance by the time of Jaguar's privatization, and afterwards, being referred to as John "Ego" by the likes of Hayden[122] and Bennett[123], and "the Hitler of the motor industry" by a leading journalist of the time.[124] Dale saw "ego" as a necessary attribute in leadership, but added the caveat that, "controlling your ego is what matters". Here, Dale saw the essential problem being that, "John couldn't control his ego".[125]

But one area where Egan's personal charisma and leadership qualities did not have a great impact and where his ego was constantly dented was in relation to the workforce, as was obvious from the start. Certainly, Egan failed to appreciate that the entrenched beliefs and attitudes could not be modified by means of personality alone, and his failure to modify these did not make for a harmonious relationship with the

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[118] John Grant Interview. *Appendix* p98.
[119] John Grant Interview. *Appendix* p98.
[120] Mike Dale Interview. *Appendix* p34.
[121] Martin Bennett Interview. *Appendix* p14.
[122] Quoted by Roger Putnam. Interview with the author. *Appendix* p127.
[123] Quoted by Mike Dale. Interview with the author. *Appendix* p42.
[124] Quoted by Andrew Lorenz. Interview with the author. *Appendix* p104.
[125] Mike Dale Interview. *Appendix* p43.

workforce, a topic that is examined in Section 6.7 below. This is something that was quite apparent to others, Jake Weidinger, one of Jaguar's largest US dealers, recalling that:

> We used to watch him when he was around on the assembly line and speaking to the union people. He'd got a nasty streak about him. His demeanor changed completely. He did not like his workforce.[126]

Both Dale, and Edwards, Egan's closest lieutenant, agree that there was a change in Egan's manner in the mid 1980s. In Dale's view:

> it was John who energized Jaguar in a way no one at BL was capable of doing, and he had the courage to take the company away from BL. For a time he was an excellent leader but within a couple of years he came to believe in the press clippings and thought himself omnipotent.[127]

Edwards, supporting this view, opined that, "If it hadn't been for him it [Jaguar] would have gone under. He personally saved the company"[128], a sentiment echoed by Blythe who, as noted in Section 4.1 above, hailed Egan's performance at that time as being "heroic". Edwards believed that, "John, in the years between 1980 and 1984, was absolutely head and shoulders above everybody else. He knew exactly what he was doing. Dynamic, energetic, a fantastic leader of men. People thought he walked on water because he was that good at that time".[129] However, Edwards then saw the issue as evolving into that of "John thought he could do anything. This was really a chap walking on water!"[130] so that, "by the mid-1980s he started to believe his own bullshit, and that's when, in my view, things went a bit wrong, and he didn't know what to do".[131] Orr-Ewing saw the problem as emanating from a combination of Egan's arrogance and his ignorance of Jaguar's manufacturing capability, particularly in the era of rapid technological progress:

> I don't think Egan had realised how woefully lacking they [Jaguar] were in capacity to build that sort of thing [technologically advanced vehicles]. I don't

[126] Jake Weidinger. Interview with the author. May 2008. *Appendix* pp147-8.
[127] Mike Dale. e-mail to the author. 7th August 2007. *Appendix* p44n51.
[128] John Edwards Interview. *Appendix* p59.
[129] John Edwards Interview. *Appendix* p49.
[130] John Edwards Interview. *Appendix* p53.
[131] John Edwards Interview. *Appendix* p50.

> think he had the analytical capacity to coldly and quietly assess the situation in the company which he was in. I believe his ego was such as to believe that all that was detail, and that with his ability anything could be achieved, which is admirable in some respects, but not when you're in a company like Jaguar which really was on its knees.[132]

Such issues are discussed in the sections that follow, but perhaps the final word on the subject was provided by Lorenz when he somewhat drolly observed that, "John Egan was by no means the first or the last egomaniac to run a company down the tubes."[133]

4.3.2 Egan as Heir to William Lyons

From the time he joined Jaguar in 1980 to when Lyons died in 1985, Egan appeared to have developed a close relationship with the founder of the company, and looked to him as a role model, adopting much of Lyons' managerial outlooks and behaviour. Edwards thought that the relationship between the two men "was spiritual almost" with Lyons treating Egan like the son he no longer had.[134] Lorenz believed that Egan saw himself as being another Sir William Lyons, and that he presented himself as such.[135] Porter notes that Egan consulted Lyons and "genuinely sought his advice"[136], but, of course, this was before Jaguar suffered its XJ40-originating problems, Lyons passing away in February 1985. Whether Lyons' advice included guidance on how to manage the Jaguar operation is not recorded, but it is likely that Egan was influenced by Lyons' own values and attitudes, and adopted at least certain aspects of these.

Egan appears to have set out to emulate Lyons in a number of ways. Thus the Quality Circles (see Section 6.9 below) set up by Egan in an attempt to solve quality problems, were little different from the Joint Production Committee set up by Lyons, discussed in Section 3.5 above. Moreover, Egan started taking cars home at night, bringing them back the next day, reporting on their faults, something that Lyons had done

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[132] Hamish Orr-Ewing Interview. *Appendix* p115.
[133] Andrew Lorenz Interview. *Appendix* p104.
[134] John Edwards Interview. *Appendix* p56.
[135] Andrew Lorenz Interview. *Appendix* p104.
[136] Porter, Philip. *Jaguar. The Complete Illustrated History*. Third Edition. (Yeovil, 1995) p112.

when running the company.[137] Again, echoing Lyons' similar paternalistic initiatives, described in Section 3.4 above, Egan instituted social events to which employees' families were invited and gave employees the opportunity to participate in the launch of the XJ40.[138] These were fairly sound, common sense, measures, which had beneficial effects, although just as with the Lyons initiatives they did not succeed in routing employee institutions away from trades union influence or control. Ainsworth, for example, believed that Egan saw Quality Circles as "a way of circumventing the unions".[139] Moreover, Quality Circles offered more in terms of PR value than in providing help with quality issues. However, Egan's emulation of Lyons' walks around the factory tended to be resented by the workforce and had a negative effect on them, for, as Ainsworth explained, "Egan didn't know what he was talking about with regard to cars.....With Egan it was all PR. He used to walk around the factory, showing himself, playing at being Chairman".[140]

However, there were other aspects that were also to have quite negative consequences. Egan, like Lyons, exhibited a highly proprietorial attitude to Jaguar, Orr-Ewing opining that Egan believed that, "Jaguar was his property. Absolutely. Totally".[141] Undoubtedly this was a major reason for Egan organizing a *coup d'état* against the Jaguar Chairman shortly after privatization, although there were other issues, particularly that of freeing Jaguar from what was seen as being the remaining shackles of BL.[142] Thus Egan, like Lyons, and in the traditions of BL, described in Section 1.5 above, became both Chairman and Chief Executive. Edwards was to agree that such a dual role was frowned upon by the City at the time, but was dismissive of any such criticism since "at that time we couldn't do anything wrong, could we?"[143] This and other aspects of corporate governance relating to the direction of the company are discussed in Sub-Section 4.3.3 below.

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[137] Thorley, Nigel. *Jaguar in Coventry. Building the Legend.* (Derby, 2002) p136.
[138] Underwood. *op.cit.* p82.
[139] Bob Ainsworth Interview. *Appendix* p3.
[140] Bob Ainsworth Interview. *Appendix* p1.
[141] Hamish Orr-Ewing Interview. *Appendix* p114.
[142] Hamish Orr-Ewing Interview. *Appendix* p109; John Egan Interview. *Appendix* p67; George Magan. Interview with the Author. January 2004. *Appendix* p106.
[143] John Edwards Interview. *Appendix* p58.

It is of note that in getting rid of Orr-Ewing as Chairman, Egan appeared to be depriving himself of the benefit of the counsel of someone with considerable motor industry experience, something which he obviously felt he did not require given that he did not recruit anyone of a similar ilk into a senior position in Jaguar, or onto the Jaguar main board. Henceforth, there would be nobody within the company who would be able to challenge his actions, a scheme that, somewhat incongruously, given his animus towards BL, imitated the BL tradition of personal control described by Whisler.[144]

More significant was Egan's steadfast refusal to recognize the requirement to raise funds through an Equity Rights Issue. Whilst the desire to keep control had dictated Lyons' refusal to undertake Rights Issues, as noted in Section 3.3 above, it is more difficult to understand Egan's reasoning since he held relatively few shares in the company, and there was no question of his losing control through his holding being diluted. It is questionable, therefore, as to whether Egan was influenced in his attitude here by what Lyons had done, or not done, because Jaguar, unlike at the time when Lyons ran the company, did need considerable funding. Here, Orr-Ewing provided the following analysis:

> Up to the late 1960s a motor car was sufficiently straightforward that a small company dominated by a very industrious and ingenious man, backed by some first class first line reporting, was perfectly capable of holding its own in the marketplace. Development costs were not that high. Jaguar was able to generate enough cash during that period to pay for its own development..... Where Jaguar ran into trouble was when the era of electronics appeared and suddenly a new world opened up; engine management systems, ABS braking systems. These became hugely expensive to develop, and required skills which simply did not exist in that sort of company.[145]

The question of a Rights Issue had been raised shortly after privatization by Ted Bond, the Finance Director of Beecham and a Jaguar non-executive director, as recalled by Orr-Ewing:

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[144] Whisler, Timothy R., *Niche Products in the British Motor Industry: A History of MG and Triumph Sports Cars, 1945-1981*. Unpublished PhD thesis. London, London School of Economics, 1991. p45.

[145] Hamish Orr-Ewing Interview. *Appendix* pp114-5.

> Ted Bond said 'Well, we have to bear in mind that at some time in the not too distant future we may need a Rights Issue to raise enough funds'. Egan said 'We'll never need a Rights Issue!' Ted, I remember, said 'I'll remind you of that one day in the future'.[146]

When asked about the need for a Rights Issue when interviewed for this study, neither Edwards nor Egan saw it as having been a concern, Egan holding to the view that whilst Jaguar "needed a huge resource to get this job done", it could fund its development programme from cash flow, and made much of the fact that Jaguar had banking facilities of three or four hundred million pounds. Drawing on such facilities, however, seemed somewhat contrary to his statement that, "I was very anxious to have a very conservative funding strategy so we never had any debt."[147]

However, Orr-Ewing doubted that Jaguar would have benefited from a Rights Issue, opining that:

> Whilst they could have had a Rights Issue and raise a substantial amount, I doubt that they had the management ability to use the money. I also doubt whether Egan would have had the ability to mastermind that. There was an ego problem here.[148]

Egan's refusal to countenance raising funds through equity issues was to have dire consequences for Jaguar's future survival, particularly given the need for ever-increasing levels of capital expenditure, and diminishing levels of operating cash flow, both of which are discussed in Chapter Eight.

4.3.3 The Issue of Corporate Governance

It may be argued that an important indicator of the integrity of a company's management is that of the extent to which good corporate governance is practiced by its directors. Although corporate governance issues in general in the early and mid-1980s were not given the prominence that they were to attain in the 1990s, they were of growing concern to City fund managers throughout the decade. Indeed, the extent to which good corporate governance was practiced by a company's directors was perceived as being evidence of

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[146] Hamish Orr-Ewing Interview. *Appendix* p112.
[147] John Egan Interview. *Appendix* p68.
[148] Hamish Orr-Ewing Interview. *Appendix* p116.

good stewardship and management. The collapse of companies such as Polly Peck, Maxwell Communications, and the Coloroll Group, led to the deliberations of the Cadbury Committee, and the publication of *The Code of Best Practice* in December 1992[149] which presented the Committee's recommendations on the structure and responsibilities of boards of directors, and which were largely a reflection of perceived best practice. It is of note that very little was published, particularly by academics, on the subject of corporate governance before this date, but the debate stimulated by the Cadbury Committee, and subsequent committees (Greenbury in 1995, and Hampel in 1998)[150], led to a considerable volume of literature on the subject.

Whilst the term 'corporate governance' is more often used in relation to the accountability of a company to its shareholders, to provide a degree of protection to investors in the company, it also relates to "the way in which directors provide 'overall direction to the enterprise', and control the 'executive actions of management' ".[151] This present sub-section discusses these "internal" aspects of corporate governance as they applied to Jaguar, while the external aspects, relating to the interface with the City, are examined in Chapter Nine.

Lloyd-Jones *et al* opine that "the governance of a company involves the activity of top decision makers in defining and shaping the key elements of administration, which includes planning, organizing, commanding, coordinating and controlling"[152], whilst Dedman suggests that governance is a mechanism that serves to protect external investors from "managerial expropriation". This term, according to Dedman, encompasses "a range of dysfunctional managerial behaviours which increase the manager's personal utility but reduce the value of the owner's investment in the firm". Such behaviour "includes spending company funds on non-value-adding luxuries, such as....company yachts, jets etc; making inefficient investment decisions (e.g. to pursue 'pet' projects); and shirking (e.g. failing to expend time and effort to seek out new

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[149] Cadbury, Sir Adrian (Chairman). *The Report of the Committee on the Financial Aspects of Corporate Governance*. (London, 1992).

[150] Greenbury, Sir Richard. *Director's Remuneration*. (London, 1995); Hampel Committee. *The Final Report of the Committee on Corporate Governance (The Hampel Report)*. (London, 1998).

[151] Lloyd-Jones, Roger, Maltby, Josephine, Lewis, M.J., and Matthews, Mark. "Corporate Governance in a Major British Holding Company: BSA in the Interwar Years" in *Accounting, Business & Financial History*, Volume 16, Number 1 (March 2006). p70.

[152] *Ibid.* p83.

investment opportunities)".[153] Lending support to this view, Gaved notes that "Managerialist models of corporate control predict that managers left to their own devices will shirk, entrench their personal positions, and make private gains at the expense of shareholders".[154]

Corporate governance also concerns the level of disclosure by companies, without which there can be little or no accountability to shareholders. Here, Gaved asserts that it was widespread concern about insufficient financial disclosure, checks, and balances which had led to the collapse of a number of companies and resulted in the establishment of the Cadbury Committee.[155]

The main recommendations of the Cadbury Committee, incorporated in *The Code of Best Practice,* were that:

- the roles of Chief Executive and Chairman be separated, due to concern about the "considerable concentration of power" which arises when the two roles are combined
- there be a minimum of three non-executive directors on the board, the idea being that the non-executive directors should act as a check and a balance on the activities and plans of executive directors and therefore the company. The Code stated that non-executive directors "should bring an independent judgement to bear on issues of strategy, performance, resources, including key appointments, and standards of conduct".[156]
- there be an audit committee composed of at least three non-executive directors, with written terms of reference

As a result of these and other recommendations being adopted by companies it was intended that financial control and reporting standards would be raised, and that the consequent increased levels of disclosure by companies would encourage effective

[153] Dedman, Elisabeth. "The Cadbury Committee recommendations on corporate governance – a review of compliance and performance impacts" in *International Journal of Management Reviews*, Volume 4, Issue 4 (December 2002). p336.
[154] Gaved, Matthew. *Ownership and Influence*. (London, 1994). p11.

[155] Gaved, Matthew. *Closing the Communications Gap: Disclosure and Institutional Shareholders*. (London, 1997). p25.
[156] Cadbury *op.cit.* Recommendation 2.1.

interest on the part of fund managers, it being noted that institutional shareholders had been "reluctant to become too involved in company affairs when unhappy, preferring to sell shares than to propose change".[157] There was no obligation for companies to adopt these recommendations, and whilst the London Stock Exchange from 1993 onwards required, as part of its listing rules, listed companies incorporated in the UK to report whether or not they had complied with the Code, this was not a requirement to comply with the recommendations themselves.

As stated above, the Cadbury recommendations were based on what was perceived as being best practice, and it is germane to an understanding of the practice of corporate governance by Jaguar to examine to what extent Jaguar complied with best practice in an era when there was growing concern about the conduct of listed companies. What is apparent is that the arrogance of the Jaguar management that was the subject of Sub-Section 4.3.1.3 above extended also to the realm of corporate governance.

When Jaguar was privatized in August 1984 it had a board of directors consisting of three executive directors (John Egan, John Edwards, and Graham Whitehead) and three non-executive directors (Hamish Orr-Ewing, Ray Horrocks, and Ted Bond), with the roles of Chairman and Chief Executive being separated. Thus, the composition of the board was in accord with what would be two of the three Cadbury recommendations mentioned above. However, in March 1985 John Egan forced the resignation of Hamish Orr-Ewing as Chairman, as described in Sub-Section 4.3.2 above, and assumed both roles, despite such a dual role being frowned upon by the City at that time. At the same time two new executive directors (Kenneth Edwards and Michael Beasley) were appointed to the board, causing the *Financial Times* to note that Jaguar's executive directors now outnumbered its non-executive directors.[158] In April 1985 both Orr-Ewing and Horrocks resigned from the board, leaving Jaguar with only one non-executive director. Thus two of the three main components of what would be identified by Cadbury as being corporate governance best practice were now being ignored by Jaguar. Another non-executive director, Sir Austin Pearce, was appointed in February 1986, as a result, according to the *Financial Times* of Jaguar being "persuaded by the

[157] Dunlop, Alex (ed). *Corporate Governance and Control.* (London, 1998). p4.

[158] *Financial Times.* 2 March 1985.

City to add more NEDs to its board"[159], although it is problematic as to whether the City influence was that of investors or Jaguar's own City advisors. However, with two non-executive directors Jaguar continued to ignore perceived best practice. Also it is problematic as to whether either of the two non-executive directors in office from 1986 onwards had much knowledge of the motor industry and could therefore contribute a great deal in terms of the issues of strategy, performance, and resources as recommended by the Cadbury Code. Although, there was never any mention in its literature or in meetings with the City of Jaguar having an audit committee, Jaguar, with only two non-executive directors, could not *ipso facto* comply with perceived best practice in this regard.

As has been revealed in Sub-Section 2.4.2 above, and is divulged further in Sub-Section 5.6.5 below, and in Chapter Eight, particularly Sub-Sections 8.3.3 and 8.4.7, Jaguar's level of disclosure was insufficient, critical aspects of the company's performance being obscured. This severely limited shareholder knowledge and was contrary to good corporate governance. However, it must be emphasized that Jaguar at all times complied with statutory requirements regarding financial disclosure, despite its withholding from shareholders information regarding the benefits accruing from currency exchange in the first half of the decade, and the impact on profits of the problems with the XJ40, and misrepresenting, as revealed in Sub-Section 4.3.1.3 above, the progress with the development of the XJ41 sports car.

4.3.4 The Cult of Personality and the Triumph of Style over Substance

As was mentioned in Sub-Sections 4.2.1 and 4.2.4 above, and is discussed in various places in the chapters following, PR was central to the Egan campaign to restore Jaguar's fortunes. Given, as Lorenz appreciated, that the job of PR was "to put the best possible gloss on things"[160], it was the means by which Jaguar masked its considerable problems following the launch of the XJ40. But much of the PR effort was directed at projecting the image of John Egan himself, and in this David Boole, the company's

[159] *Ibid.* 19 February 1986.
[160] Andrew Lorenz Interview. *Appendix* p103.

Communications and Public Affairs Director, played a leading role. Indeed, as Putnam related:

> David, like his mentor before him, Hopkins, who had been Lord Stokes PR [at BL], saw his main role as that of promoting John. He believed that a brand like Jaguar had to have a figurehead like Bill Lyons.....So, John was what David had made him: "Mr Jaguar", inseparable from the brand.[161]

Orr-Ewing saw Boole as Egan's "Svengali"[162], a sentiment with which Dale agreed, opining that, "David Boole made John Egan in the press, there's no doubt about that. David had a wonderful touch with the UK press".[163] Lorenz, a member of that press, even likened the relationship to that of Alistair Campbell and Tony Blair a decade or so later.[164] The projection of Egan to the outside world was such that Edwards was to comment, not altogether tongue in cheek, that, "By this time [1983-84] everyone believed that John Egan did everything at Jaguar. He made all the cars, he designed them all, he sold them all, he made the tea. He did everything!"[165] Orr-Ewing, in paying tribute to Boole, a man whom he admitted to not liking at all, commented, "The buildup of the image of Jaguar by David Boole as a study of rebuilding a company's public image was absolutely masterly".[166] In 1983 Egan was given the accolade of "Midlander of the Year"[167], and among many other tributes was voted the most popular businessman in the UK after Lord Hanson.[168] In 1986 Egan received a knighthood in recognition of his success at Jaguar.[169]

Much of this PR success was due to the personality, and drive, of Egan himself. Orr-Ewing saw Egan as being "ruthlessly ambitious", but someone who enjoyed tremendous loyalty from the Jaguar staff, being seen as, "a tough customer, and when he said something would be done it happened. After years of very woody management, Egan arrives on the scene; strong personality, forthright, no nonsense, and did hugely

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[161] Roger Putnam Interview. *Appendix* p127.
[162] Hamish Orr-Ewing Interview. *Appendix* p114.
[163] Mike Dale Interview. *Appendix* p42.
[164] Andrew Lorenz Interview. *Appendix* p104.
[165] John Edwards Interview. *Appendix* p52.
[166] Hamish Orr-Ewing Interview. *Appendix* p115.
[167] Thorley. *op.cit.* p137; Whyte. *op.cit.*p180.
[168] John Edwards Interview. *Appendix* p53.
[169] Thorley. *op.cit.* p150.

raise their morale".[170] Trevor Finn, the Chief Executive of Pendragon, the UK motor retailer, at the start of his relationship with Jaguar in 1983 noted, as an external observer, that Jaguar's middle management were in awe of Egan.[171] But this did not appear to extend to the shop floor, Ainsworth commenting in regard to Egan that, "It was all superficial with him. He was superb at presentation, but not as far as following up was concerned".[172] Undoubtedly, Egan did have a great ability as a salesman, Lorenz noting that, "he told a great story. John was a great salesman actually. I think he did a fantastic job of selling that story. In the early 1980s he understood what they needed to pull themselves out of it. In that kind of business image is really important. That was his forte."[173] This personal characteristic was particularly appreciated, and effective, in the USA, Putnam noting that, "without any doubt, one of John Egan's greatest achievements when he first took over was actually getting the US dealers' confidence restored. He gave Mike Dale the confidence to go out and get the dealers to place their support".[174] Bennett agreed, describing Egan as, "a super, super salesman. And he sold the US dealers on the XJ40, and on the things that Jaguar was doing....He could sell an Arab a bucket of sand!"[175], as did Weidinger, the proprietor of Jaguar's most successful US dealership, who noted that Egan, "had a sparkle in his eye, and a lot of charisma, and he was probably the best salesman I've ever seen in my life. And he was a great leader".[176]

But, as has been noted, Egan became increasingly prone to believe his own PR statements, and tended to lose touch with reality. In this sense he represented what Maccoby identified as being the unproductive narcissistic leader, such individuals becoming obsessed with their own grandiose ideas, emotionally isolated, and distrustful of alternative viewpoints.[177] Maccoby notes that as narcissistic leaders become more successful they become over-sensitive to criticism and become increasingly poor listeners, and can become destructive as a result. As has been shown in the previous

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[170] Hamish Orr-Ewing Interview. *Appendix* p112.
[171] Trevor Finn. Interview with the author. July 2008. *Appendix* p80.
[172] Bob Ainsworth Interview. *Appendix* p1.
[173] Andrew Lorenz Interview. *Appendix* p103.
[174] Roger Putnam Interview. *Appendix* p119.
[175] Martin Bennett Interview. *Appendix* p14.
[176] Jake Weidinger Interview. *Appendix* p147.
[177] Maccoby, Michael. "Narcissistic Leaders. The Incredible Pros, The Inevitable Cons". *Havard Business Review*. **78 (1)**. January-February 2000. pp69-77.

sections, Egan exhibited many of these traits, and increasingly, according to Edwards, Dale, and others, became less effective as a leader, while Egan's sensitivity to criticism may be noted from his reaction to the Ford "Transition Report" mentioned above, and his attempt to persuade Lorenz to cease publishing Ford's criticisms of Jaguar, and himself, following the takeover.[178]

During his tenure at Jaguar Egan seemed to have forgotten that PR is aimed at creating perceptions, and eventually reality has to match those perceptions, or credibility suffers, perhaps to an extent where sales and profits are damaged, as became the case with Jaguar following the launch of the XJ40. However, Egan, with the benefit of hindsight, was later to boast of the success of Jaguar's PR, Trotman recounting that, "John Egan said that one of the things they'd done, to his great glee, was to create a lot of sizzle without there being a lot of bacon there", Trotman going on to observe that, "they were limping along and keeping the thing going with the sizzle..... but it was an accident on the way to happen".[179] This is a topic that is explored further in Chapter Five, particularly in regard to the myths created by Jaguar's PR, many of which have not been examined in any detail prior to this study.

4.3.5 Strategy and Strategic Issues

As noted earlier, planning is regarded as one of the major functions of management. Because Jaguar never formally articulated a long term strategy to a public audience, such as the City, there was always some doubt as to what the company's goals might be. Ainsworth, for example, believed that the management's objective was merely to sell the company to the highest bidder after five years when the "Golden Share" expired[180], a sentiment that was shared by Dymock.[181] Such an aim has been vehemently denied by both Egan and Edwards.[182]

Whilst there are many definitions, and interpretations, of the term "strategy", it is usually understood to be concerned with defining the organization's objectives, developing policies and plans to achieve those objectives, and allocating resources

[178] Andrew Lorenz Interview. *Appendix* p104.
[179] Alex Trotman Interview. *Appendix* p140
[180] Bob Ainsworth Interview. *Appendix* p1.
[181] Dymock, Eric. *The Jaguar File* (Sutton Vemy, 1998). p316.
[182] John Egan Interview. *Appendix* pp75,76; John Edwards Interview. *Appendix* p62.

accordingly in pursuit of those objectives.[183] Generally, strategy is the concern of the top management of a company, particularly its Chairman or Chief Executive, although it might be delegated to a specialist Development or Corporate Planning Director, and strategy may be formally set out as a strategic plan. Although strategy can extend to various time horizons, most strategies are concerned with the longer term, with detailed plans and budgets relating to a five year time horizon.

Although it is hardly surprising that the Egan management was little concerned with strategy *per se* in the early years, survival and recovery being the prime objectives, the situation had changed by the time of privatization, with strong cash flow at that time enabling capital investment, and corporate development, enhanced by the possibilities offered by Jaguar taking advantage of its highly priced shares. The potential problems facing Jaguar, and the opportunities presented for corporate development were recognized by Orr-Ewing, Jaguar's first Chairman, who set about informally exploring the possibilities for acquisitions. Egan was scornful of ideas such as buying an Italian luxury boat manufacturer or Land Rover, although given that in the late 1980s Vickers was to purchase Cosworth Engineering, a designer and manufacturer of high performance automotive engines, and Cantieri Riva, an Italian luxury boat business, to complement its Rolls-Royce motor manufacturing activity, perhaps Orr-Ewing's ideas were not that bizarre. Orr-Ewing's "interference" was used by Egan as the main reason for obtaining his removal as Chairman, although, as Orr-Ewing admits, the personal chemistry between Egan and himself was not good.[184]

Egan by this time appeared to have developed an intransigence in regard to strategic issues that excluded anything but Jaguar itself, and it is notable that Egan's management team did not include a Corporate Planning or Corporate Development Director, unlike many public companies of this era, especially those with annual sales exceeding some £500million. Whilst Jaguar had certain long term objectives there did not appear to be any formal planning, and Finn, who had been closely involved with the redevelopment of Jaguar's UK distribution network in the 1980s, related that he had not

[183] Henry, Anthony. *Understanding Strategic Management* (Oxford, 2008) pp2-25.
[184] Hamish Orr-Ewing Interview. *Appendix* p111.

seen any evidence at the time of there being a "big strategic plan".[185] Edwards admitted that, "We just worked on our instincts....One of our logics was based on trying still to make something of an independent Jaguar, which was our gut instinct, maybe a naïve instinct, since before the 1984 privatization".[186] Thus, the opportunity of taking over Land Rover, an acquisition which Putnam believed "would have given us critical mass"[187], was rejected without a formal appraisal being undertaken.

Egan's long term objective was "to build all the way through the 1980s a company which would be the new BMW, the English BMW"[188], but little consideration appears to have been given to the financial resources, and their sources, required to achieve that aim, and a formal plan of how it would be achieved appears never to have been set out. Above all, there does not appear to have been given much consideration as to what might be the limits to growth for a company with a limited product range, targeted at a comparatively small market segment, as was the case with Jaguar. This perhaps is something that is not very surprising given Jaguar's lack of market research and analysis capability, discussed in Section 5.2 below. In this regard, the size constraints of the luxury car market segment, and the benefits of a broader product range is apparent from the BMW experience at this time.

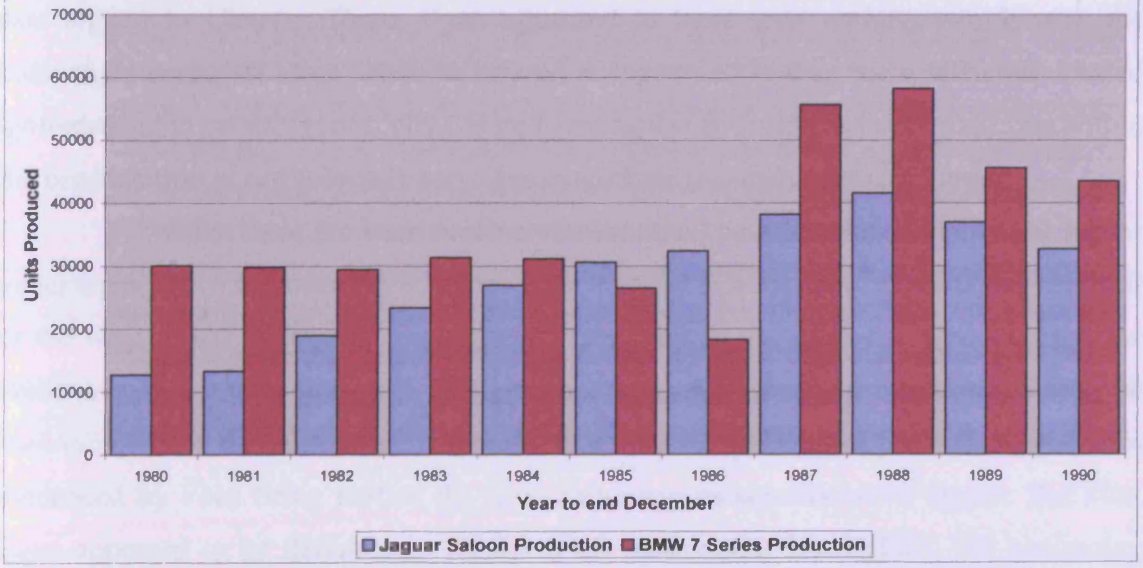
Whilst total BMW car sales of 486,592 units in 1988 was 147,360 units ahead of the 1980 figure, production of its 7 Series, the main BMW competitor to the Jaguar saloon, had increased by only 28,108 units by this time. By 1990, BMW total sales had increased by a further 27,139 units to 513,731 units, but 7 Series production declined by 14,675 units to 43,503 units, the overall increase obviously resulting from sales of the smaller, and cheaper, 3, 5 and 6 Series models.[189] Jaguar, in contrast, was dependent on the sales of its saloon models, and had little prospect of being able to achieve product diversification in the short or medium term given its limited financial resources. Interestingly, as can be seen in Figure 4.2, BMW 7 Series production saw little change in the five years to 1984, and declined in 1985 and 1986 ahead of the launch of the new

[185] Trevor Finn Interview. *Appendix.* p80.
[186] John Edwards Interview. *Appendix* p62.
[187] Roger Putnam Interview. *Appendix* p122.
[188] John Edwards Interview. *Appendix* p62.
[189] e-mails to the author from BMW Business and Finance Communication Department, Munich 25 September 2008 (total BMW sales); 29 September 2008 (7 Series production figures).

7 Series at the end of 1986, the success of the new car being apparent from the greatly increased volumes produced from 1987 onwards. Jaguar, on the other hand, was not able to respond as rapidly to the increased demand for the XJ40, launched in 1986 onwards, due to deficiencies in planning and resource allocation, discussed in the chapters that follow.

As noted above, Egan had determined against raising funds through the stock market, and was dependent on operational cash flow to fund the necessary resources for product development and capital expenditure. Much was dependent, therefore, on the successful launch of the XJ40. The problems with this model, however, deprived the company of much needed resources, both financially and in terms of manpower, and reduced strategic considerations to those described by Putnam as being the "needs must" objectives that were prevalent in Egan's first years at Jaguar. By 1988, Egan, according to Putnam, "was running the business on a kind of monthly basis. John had a Micawberish view that something would turn up. And, of course, Ford turned up".[190]

Figure 4.2: Jaguar Saloon Production and BMW 7 Series Production, 1980 to 1990.



Source: e-mail from BMW Business and Finance Communication Department, Munich 29 September 2008; Jaguar Annual Report and Accounts, 1984 to 1990; Jaguar Offer for Sale document, 1984; Long, *Jaguar XJ-S*.

[190] Roger Putnam Interview. *Appendix* p127.

Furthermore, Egan was forced to radically modify his views regarding strategic issues due to the problems resulting from the XJ40. As was seen in Sub-Section 4.2.5 above, Egan was prepared to consider a corporate partner for Jaguar, provided this allowed Jaguar to keep its independence, and was prepared to have a Rights Issue to support such a deal. It was ironic, however, that the negotiations with General Motors, designed to ensure independence, forced Ford to bid for Jaguar, and resulted in Jaguar losing its much-cherished independence.

Ford was later to show Jaguar its deficiencies in failing to undertake strategic planning, Edwards explaining that when Ford came along, "They showed us their business plan. They wanted to create a new BMW. We had wanted to create another BMW in terms of a 3 Series, a 5 Series etc, but ours was more of a pipe-dream. Theirs was a proper plan, and they've done it, they've done exactly what they said they'd do".[191]

4.4 Summary and Conclusions

In Chapter Three it was suggested that Lyons might justly be held accountable for the problems resulting from the pervasive weaknesses within Jaguar's corporate culture. Many of these were aggravated by BL, but then were largely ignored by Egan. Indeed, as was argued in Chapter Three, Egan appeared to have seen nothing wrong with the company's corporate ethos when he arrived at Jaguar, other than the weaknesses caused by trades union intransigence. His failure to recognise and address the weaknesses within the organization as a whole only served to exacerbate the underlying problems.

Whilst there has been much comment about poor industrial relations at Jaguar under Egan, there has been little written regarding the effectiveness of management itself or the weaknesses of Jaguar's management structures in the Egan era. Undoubtedly, the abilities of a number of Egan's management team were open to question, as may be ascertained from the discussion of specific functions in the chapters that follow, and as is evidenced by Ford firing half of the team following its acquisition of Jaguar. But also, Egan appeared to be deficient in regard to his own management skills, the continuing existence of fiefdoms, for example, giving testimony to his inability to control and co-ordinate the activities of the organization, whilst his obduracy in regard to strategic issues

[191] John Edwards Interview. *Appendix* p48.

paved the way for the Ford takeover. Egan's growing arrogance, and that of his team members, following the remarkable revitalisation of the company led to an unrecognised, and unchecked, complacency which blinded Egan, and his team, to the problems, and the consequences, of the disaster represented by the XJ40.

This arrogance was reinforced by the success of the PR campaign and was apparent also from the failure to adopt best practice in corporate governance. Indeed, it is somewhat incongruous that in a decade when listed companies were progressing towards the type of corporate governance system suggested by Cadbury that Jaguar should be moving away from it. The success of the PR campaign undoubtedly had a detrimental effect on Egan, with him starting to believe more the illusion created about Jaguar, and himself, rather than the reality, something which consequently led to a diminution of his management and leadership skills, and laid the path to Jaguar's demise. The extent of cultural constraints in the different functional areas of Jaguar, and the impact of each in the determination of Jaguar's performance, is examined in the chapters which follow, commencing with markets and marketing.

CHAPTER FIVE

MARKETS AND MARKETING

5.1 Introduction

In Section 1.2 above it was noted that the received wisdom of the time, and subsequently, was that Jaguar's remarkable recovery and success in the first half of the 1980s was the result of it having been transformed from being a production-driven company, to that of being marketing-led. As a result of this supposed metamorphosis, Jaguar was able to regain, and surpass, the level of sales lost in various markets at the end of the 1970s. It is appropriate, therefore, that the first functional area to be examined in greater depth should be that of marketing.

Whilst much has been written, both by academic and popular writers, about the failures of the British motor industry, mainly BL, in various geographical markets in the 1960s and 1970s, discussion here has tended to focus on the symptoms, rather than the causes, of such failure, with little depth of analysis being offered. Williams *et al* in their several works[1] have emphasised "external market limitations", and "poor distribution" for the failure of BL, but confine their analysis regarding market limitations to a discussion of published statistics, which, as was argued in Sub-Section 2.3.1 above, is a somewhat inadequate basis for their opinions and conclusions. Likewise, their assertions regarding poor distribution are based on official sales volumes figures and, forsaking any attempt at triangulation to support such sources, they concluded that BL's low sales volumes in France and Germany could be explained purely in terms of patchy or inadequate dealer networks, and restricted product offering.[2] This ignored other possible variables, such as poor product quality and reliability, relative prices, economic cycles, or the existence of French and German nationalism. Indeed, the fact that Jaguar's

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[1] Williams, Karel, Williams, John, Thomas, Dennis. *Why are the British Bad at Manufacturing?* (London, 1983); Williams, Karel, Williams, John, Haslam, Colin. *The Breakdown of Austin Rover: a case study in the failure of business strategy and industrial policy.* (Leamington Spa, 1987); Williams, Karel, Haslam, Colin, Williams, John, Johal, Sukhdev, with Adcroft, Andy. *Cars. Analysis, History, Cases.* (Providence, 1994).

[2] Williams *et al. Why are the British Bad at Manufacturing?* p238.

US sales collapsed after 1988 despite it having a strong dealer network, discussed in Sub-Section 5.6.5 below, demonstrates that good distribution *per se*, is a necessary, but not sufficient, condition for sales success.

If the actual dynamics of various motor car markets have not been sufficiently explored by such writers then the existence, performance, and success of the marketing function *per se* within motor manufacturers has received even less attention. For the most part there has been little or no attempt to examine the part played by marketing, and, indeed, many writers seem to have regarded the word "marketing" merely as a euphemism for customer-related activities such as distribution, sales promotion, and public relations, as Lorenz was to admit.[3] But even then, something as vital as the distribution function, as Whisler has noted, "receives cursory attention in the analyses of the indigenous industry".[4]

By the 1980s, markets for luxury cars had grown in size, and had become far more complex and competitive than anything previously experienced. Greater technological and safety innovations in automotive design were responses not only to more stringent safety and pollution laws but also to the need for greater product differentiation.[5] Contemporaneously, the entry of more manufacturers into various luxury car markets, and the resultant intensified competition, demanded not only the appropriate sales, advertising, and public relations responses, based on well-founded marketing research and analysis, but also products that matched consumer expectations, both in terms of physical attributes, such as safety and fuel economy, and in terms of the image that they conveyed, and which, in turn, therefore, might be conferred on the driver. Indeed, as Foreman-Peck *et al* wrote, "customer loyalty clustered round images of marques; Ford acquired an image of mechanical reliability, Volvo of safety and so on".[6] For Jaguar, much emphasis was given to developing a subjective image of the brand

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[3] Andrew Lorenz. Interview with the author. August 2007. *Appendix* p103.
[4] Whisler, Timothy R. *The British Motor Industry 1945-1994. A Case Study in Industrial Decline.* (Oxford, 1999). p243.
[5] Rhys, Garel. "Motor Vehicles" in Johnson, Peter (ed). *The Structure of British Industry.* (London, 1988). p178.
[6] Foreman-Peck, James, Bowden, Sue, and McKinlay, Alan. *The British Motor Industry.* (Manchester, 1995) p135.

based on its features of "wood, leather, and overall charm"[7], and its reliability, as well as its success in motor racing.

Towards the end of the 1970s, and during the 1980s, the German luxury marques increased their sales and market share of the luxury cars sector in both the US and UK, as can be seen in Table 5.2 (page 209) and Figure 5.18 (page 238). Indeed, Mercedes increased its US sales from 45,259 units in 1975 to 89,098 units in 1985, thus increasing its overall market share from 0.5% to 0.8%, and BMW increased its US sales from 19,419 units to 87,832 units, and its overall market share from 0.23% to 0.79%, in the same period.[8] In 1989 the Japanese entered the US luxury car sector, and in one year had overtaken Jaguar in terms of sales volumes, Lexus, with two models, alone achieving US sales in 1990 of 63,534 units[9], compared to Jaguar's 18,728 units and BMW's 63,646 units.[10] Whilst in the early 1980s Jaguar did much to restore, and grow, its sales volumes in both the UK and the USA through a well-orchestrated PR campaign, and reorganisation of the distribution systems, which dramatically improved the image of the company and its products, it was a triumph of style over substance. The reality was that the new car, the XJ40, could not live up to the Jaguar quality image that had been so carefully nurtured in the five years before its launch in 1986, particularly in the USA, as discussed in detail in Chapter Seven.

This present chapter examines and challenges Jaguar's reputation in the 1980s as a marketing-led organisation (Section 5.2), exploring the extent to which this was an illusion created by the company itself. It then examines Jaguar's interface with its marketplace, mainly in the period 1978 to 1992, in terms of product offering (Section 5.3), competitive position (Section 5.4), and the relative importance of its various markets (Sections 5.6 to 5.8), especially the US market (Section 5.6) which from 1981 onwards determined Jaguar's overall financial performance. In particular, it examines the vital part played by Jaguar's US dealers (Sub-Section 5.6.2), and considers the incidence of, and reasons for, Jaguar's remarkable renascence in the US in particular in the early 1980s (Sub-Section 5.6.4), and also the downturn after 1987 (Sub-Section 5.6.5).

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[7] Bruce Blythe. Interview with the author. January 1994. *Appendix* p19.
[8] *Automotive News*, various issues.
[9] Dawson, Chester. *Lexus: The Relentless Pursuit*. (Chichester, 2004). pp139-144.
[10] *Automotive News*, 100 Year Almanac, 1996.

5.2 The Myth of a Marketing-led Jaguar

Much has been written about Jaguar's success under Egan being marketing-led. Underwood, echoing Egan's oft-repeated words, in 1989 wrote, "[Jaguar] is no longer a manufacturing-led company, it is a marketing-led company in which 'satisfying customers' is the key to success".[11] Lorenz, also writing in 1989, wrote, "Jaguar was a marketing-orientated company. Above anything else, Egan was a great marketing man".[12] However, when questioned in 2007, Lorenz admitted that he could not really explain what he had meant by "marketing", other than relating it to Jaguar's success in terms of PR.[13] This is hardly a criticism of Lorenz for, as Wilmshurst pointed out, "The term 'marketing' is used in different ways by different people", before going on to define the term as referring to "a particular approach to business in relation to customers and their needs".[14] Therein lies one of the problems since it is difficult to identify, beneath the hype, what aspects of the marketing concept, as understood at the time, were actually embraced by the Egan management.

Marketing textbooks of the time placed great emphasis on distinguishing between the traditional, and outmoded, production-orientated company and the modern, dynamic, marketing-led company, hence the significance of Underwood's comment quoted above. Rodger, one of the leading writers of the time on marketing, distinguished between the approach to various organizational functions taken by the production-orientated company, and the marketing-orientated company, and examined the activities which formed the main activities of the marketing function.[15] It is pertinent, therefore, to consider Jaguar's marketing activities in the light of these as a basis for determining the veracity of Underwood's statement, and Jaguar's claims.

Rodger identified the principal marketing functions as being those of marketing information and research, product planning, sales and distribution, and advertising and promotion. The marketing information and research function was seen as key by writers such as Rodger since shortcomings here could "seriously impair a firm's

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[11] Underwood, John. *The Will to Win. John Egan and Jaguar.* (London, 1989). p2.
[12] Lorenz, Andrew. *A Fighting Chance. The revival and future of British manufacturing industry.* (London, 1989). p257.
[13] Andrew Lorenz Interview. *Appendix* p103.
[14] Wilmshurst, John. *The Fundamentals and Practice of Marketing.* (London, 1978). p1.
[15] Rodger, Leslie W. *Marketing in a Competitive Economy.* (London, 1971) pp60-1, 70.

competitive performance".[16] Although Egan often claimed that a number of his statements regarding Jaguar's markets were based on the company's own market research, it is clear that market research and analysis, to the extent that it existed, was not taken much into account. In Section 5.5 below, it is shown that Jaguar spurned the input of its US dealers in regard to product specifications for its US models. Grant related that Jaguar "had very little analysis capability", and that, as previously noted in Sub-Section 4.3.1.1 above, "they didn't have an attitude that was receptive to analysing things" [17]. Support for this view was provided by Finn who recounted that Jaguar tended to "make policy decisions around the table" rather than base decisions on research and analysis, but noted that Jaguar was very keen to receive the views of its UK retailers[18], in apparent contrast to the attitude adopted towards its US dealers. Indeed, Finn maintained that the idea for the exclusive dealerships in the UK that proved to be such an important factor in Jaguar's sales growth in the mid-1980s onwards originated with Pendragon, based on Pendragon's own extensive market and customer research.[19]

Jaguar's own forecasting of demand appears to have had little or no scientific basis, so that it was often caught unaware by changes in demand patterns, favourable or unfavourable. In September 1989, Jaguar was forced to admit that, "we didn't anticipate a further deterioration in the US market"[20], only eight months after forecasting US sales of 23,000 sales for the year[21], a figure that had represented a year on year increase of 11%. Dale admitted that Jaguar's US sales forecasts "at first were guessed" but were later based on thirty day forward orders from dealers, so "it didn't have some great market research behind it, but what it did have was a very careful every thirty day view of what was really happening in the marketplace".[22] Likewise, there was little attempt to garner and analyse marketplace intelligence, probably one of the reasons for Jaguar's narrow definition of its competitors, as discussed in Section 5.4 below. But this also explains why Jaguar was unaware at the time that German dealers in 1985 were re-exporting cars to the USA, described in Section 5.8 below. As Grant observed:

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[16] *Ibid* p75.
[17] John Grant. Interview with the author. January 1993. *Appendix* p95.
[18] Trevor Finn. Interview with the author. July 2008. *Appendix* p80.
[19] Trevor Finn Interview. *Appendix* p77.
[20] Jaguar Interim Results Meeting. September 1989 (Author's own contemporaneous notes).
[21] *Financial Times*. 7 January 1989.
[22] Mike Dale. Interview with the author. June 2007. *Appendix* p45.

> [Jaguar] were very introverted. There was very little awareness of what the competition was up to. When we, Ford, first went to talk to them back in 1988, Ford was clearly aware that the Japanese were coming into the luxury segment. We knew they were going to do it well and Ford's view was that Jaguar couldn't tackle it on their own and they needed help....[John Egan] just refused to recognise that the Japanese could in any way challenge Jaguar.[23]

The lack of awareness of the competitive environment was further demonstrated in the apparent debate within Jaguar as to what constituted the parameters of its markets, and in regard to the identification of its competitors, as will be discussed in detail in Section 5.4 below. In Rodger's terms, such an undeveloped marketing research and analysis function was symptomatic of a production-led company where internal influences predominate in determining the company's objectives.[24]

This obviously impacted on product planning and development which, in a marketing-led company, according to Rodger, is based on market research.[25] Without adequate market research Jaguar could not, *ipso facto*, claim to be marketing-led in terms of product planning. Indeed, both Dale[26] and Putnam[27] bemoaned the fact that the marketing and sales functions were permitted little or no input into product planning and development, an issue that may be seen as being illustrative of the arrogance of Jaguar's engineering function, and that the Egan management either saw little that was wrong with, or felt unable to challenge, such attitudes and behaviour. Dale added, "The whole company was complacent - they simply were not prepared to respond to the marketplace in a practical manner".[28] Unsurprisingly, therefore, the engineering department initially refused to consider the development of a convertible version of the XJ-S, and it was only after the undoubted sales success of the model contracted by Jaguar Inc from the US company Hess and Eisenhardt had been demonstrated that Jaguar's engineering function relented and developed a Jaguar-assembled version.[29] As was shown in Chapter Four, and will be discussed further in Chapter Seven, engineering was allowed to operate virtually

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[23] John Grant Interview. *Appendix* pp94-95.
[24] Rodger. *op cit.* p60.
[25] *Ibid.* p61.
[26] Mike Dale Interview. *Appendix* p37.
[27] Roger Putnam. Interview with the author. November 2006. *Appendix* p121.
[28] Mike Dale Interview. *Appendix* pp36-37.
[29] Mike Dale Interview. *Appendix* p35.

independently of other departments within Jaguar. Rodger notes that one of the characteristics of the production-led company is that "engineering considerations tend to predominate".[30]

So, in regard to the first two marketing functions identified by Rodger, it can be seen that Jaguar remained very much a production-led company. But, on the other hand, in regard to sales, and to advertising and promotion, Jaguar was outstandingly successful. In the sales arena the vital aspect was that of distributor and dealer representation in the various markets, discussed in detail in Section 5.5 below. According to Grant, Jaguar did an outstanding job on their distribution:

> They've been in the forefront on a number of things that the volume manufacturers have now picked up on....Particularly in the States, particularly in the UK, and increasingly in the European countries as well, they adopted a radical approach to dealer representation and done a hell of a job on it....They ended up with very good quality dealers.....and those dealerships in fact had helped Jaguar survive and compensated to some extent for this awful vehicle quality.[31]

Even so, as is shown in Section 5.6.2 below, this appears to have been a Jaguar Inc initiative, continuing on from the huge reduction in BL franchises in the USA during the 1970s, rather than an Egan-inspired Jaguar Group policy, but was one that was later taken up by the UK and European operations.

In terms of advertising and promotion, Jaguar placed the greatest emphasis on, and achieved its greatest success in, its PR effort, creating an image of Jaguar and its products that belied the reality. As was made clear in Chapter Four, this was widely attributed to be the creation of David Boole, who as part of the image-building of the company promoted Egan as "Mr Jaguar", the saviour of the company. The image build-up was gradual but, once established, had a dramatic impact for, as Edwards recalled, "We started to get these fantastic articles. Therefore, all the publicity we were getting was free. It was all John Egan. He was actually, literally, a one-man band promoting everything".[32] The initial target was that of overcoming the well-founded image of Jaguar's poor quality. This campaign, as will be shown in Section 7.6 below, was

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[30] Rodger. *op cit.* p61.
[31] John Grant Interview. *Appendix* p94.
[32] John Edwards. Interview with the author. November 2002. *Appendix* p51.

extremely successful. But whilst the resultant powerful illusion of improved quality created by Jaguar revitalized the company, it was only to generate greater problems when customers could no longer believe, in the wake of the XJ40 launch, the claims of the images that had been created. As noted previously in Sub-Section 4.3.3 above, Egan was later to admit that he had created "a lot of sizzle without there being a lot of bacon there".[33] Thus, far from being a marketing-led company, Jaguar, despite having made significant advances in distribution, had remained a production-led company, and one that suffered considerable on-going problems, facts that Jaguar had cleverly masked through the application of its well-developed disinformation and obfuscation skills, as will be demonstrated further in the sections and chapters that follow.

5.3 Products

In the 1970s and 1980s Jaguar was firmly established in the prestige or luxury segment of the motor industry. At this time, the image of the Jaguar car, reinforced by Jaguar's own publicity, was that of a relatively expensive, powerful, high performance, opulent vehicle, noted for its unique styling, with an emphasis, according to Dale, on "wood, leather seats, thick carpets, and chrome trim".[34] However, by the time Egan joined the company, the product rationalisation undertaken by BL during the 1970s had reduced the model range from six in 1968 to just two, the XJ6 Saloon car range and the XJ-S Grand Tourer range, at a time when the likes of BMW and Mercedes were expanding their model ranges. Also, Jaguar offered the DS420 Daimler limousine, a coach-built, purpose-designed car, first seen in 1968, which was built to order, but which was insignificant in volume terms, with generally less than 200 units per annum being produced throughout the 1980s.[35]

The saloon was the more important range, as may be seen in Table 5.1 below, accounting for nearly 90% of Jaguar's vehicle sales in 1980, and remaining at 75% or more throughout the 1980s. This led many observers at the time to label Jaguar "a one product company". In contrast, the output of the BMW 7 Series, identified by Jaguar as the only competing BMW model, represented only 8.9% of total BMW sales in 1980, and

[33] Cited by Alex Trotman. Interview with the author. February 2003. *Appendix* p140.
[34] Mike Dale quoted in *Automotive News*. 6 April 1987.
[35] Long, Brian. *The Marques of Coventry. A History of the City's Motor Industry*. (Exeter, 1990). p94.

was a gradually diminishing proportion of total sales until 1987 when, following the launch of the new 7 Series, production increased to a level equating to 12.1% of total BMW sales, but thereafter declined again, to 8.5% in 1990.[36]

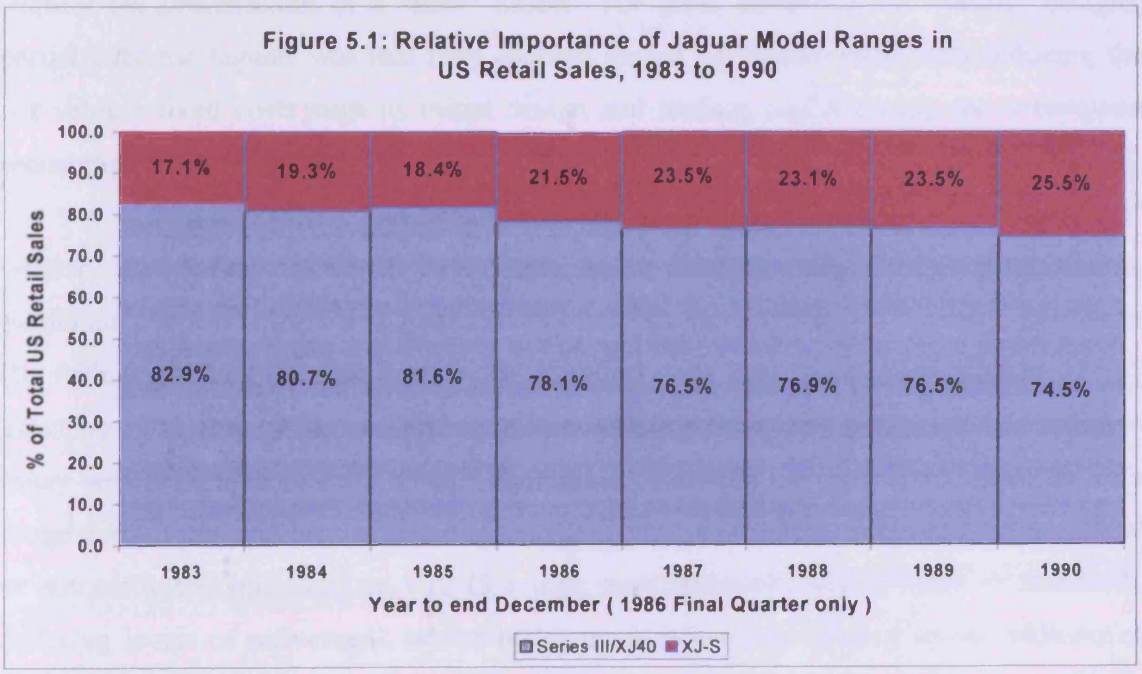
Table 5.1: Jaguar Wholesales analysed by Model Range, 1980 to 1983

Year end Dec:	1980		1981		1982		1983	
Model Range:	**W'sales (Units)**	**% of Total**	**W'sales (Units)**	**% of Total**	**W'sales (Units)**	**% of Total**	**W'sales (Units)**	**% of Total**
Series III	13,851	89.5	12,666	90.9	17,733	84.4	23,413	82.2
XJ-S	1,526	9.9	1,108	8.0	3,131	14.9	4,886	17.2
Limousines	92	0.6	159	1.1	143	0.7	168	0.6
Total W'sales	15,469	100.0	13,933	100.0	21,007	100.0	28,467	100.0

Source: Jaguar Offer for Sale Document, 1984

However, as Figure 5.1 shows, sales of the XJ-S in the vital US market progressively took a larger proportion of the total, partly due to the greater attractiveness

Figure 5.1: Relative Importance of Jaguar Model Ranges in US Retail Sales, 1983 to 1990



Source: ***Automotive News*** **Various Issues 1984-1991.**

[36] e-mails from BMW Business and Finance Communication Department, Munich 25 September 2008 (total BMW sales); 29 September 2008 (7 Series production figures).

of the XJ-S "spin-offs" that were introduced, and partly due to the problems experienced by the XJ40, discussed in Chapter Seven. In 1988, saloons accounted for some 79% of Jaguar's total production.

Both the XJ6 and XJ-S ranges benefited from what Whipp and Clark designated "robust" designs[37], that is, designs lending themselves to incremental changes over their life spans. This was a model strategy that was ideal for a low model output, high cost manufacturing, producer. Here, basic features of the car such as chassis and engine block, the most expensive elements, remain unchanged, but aspects such as body panels, interior, and trim were designed to enable modifications. In general terms there are two types of alteration – the "face-lift" which allows a model to be updated quickly, and often at low cost, to meet changing market conditions, such as those experienced with the advent of safety and exhaust emission control measures, or changing fashions, and the "spin-off" which, through the fitting of a different power unit or body style, enables the presentation of a "new" model. The great advantage of "robust" designs, particularly for Jaguar, was that they enabled longer production runs, thus reducing the per vehicle fixed costs such as initial design and tooling, and lowering the subsequent redesign and retooling costs.

The XJ6 saloon had been introduced in 1968 (the Series I), with a "face-lift" version, the Series II, which was designed to comply with changing legislation, particularly in the USA, being launched in 1973.[38] A further "face-lift" model, the Series III, with minor restyling undertaken by Pininfarina of Italy, was introduced in 1979.[39] Thus, by 1980, the XJ6 saloon had been in production for twelve years, and according to many was beginning to look dated.[40] Continual "face-lifts", however, had resulted in a range that offered a choice of two engines, the XK (3.4 or 4.2 litre capacity, with manual or automatic transmission) or V12 (5.3 litre, with automatic transmission as standard), differing levels of refinement, whilst badge-engineering had resulted in the addition of the top of the range Daimler Sovereign, an XJ6 with revised badges and trim.[41]

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[37] Whipp, Richard and Clark, Peter. *Innovation and the Auto Industry.* (London, 1986). pp54-7.
[38] Whyte, Andrew. *Jaguar. The definitive history of a great British car.* (Wellingborough, 1980). p238; Thorley, Nigel. *Jaguar in Coventry. Building the Legend.* (Derby, 2002). pp118-119.
[39] Thorley. *op.cit.* p130.
[40] Underwood. *op.cit.* p60.
[41] Daniels, Jeff. *British Leyland: The Truth Behind the Cars* (London, 1980) pp154-163.

The XJ-S Grand Tourer was a much more recent model, having been launched in 1975, although it had been under development since 1968.[42] But it was not a complete innovation, having been based on the floorplan of the XJ saloons.[43] This model was offered as a fixed-head coupe with the V12 engine and automatic transmission. There was obviously some confusion within Jaguar as to whether or not the XJ-S could be described as a sports car. Whisler has drawn attention to the problem of defining what constituted a "sports car", with the characteristics cited by *Motor Business* being applicable to many high performance saloons.[44] It would appear, therefore, that whether the label "sports car" could be applied to any particular model was as much a question of it being designated as such by its manufacturer as it was of any particular physical characteristics. Jaguar's Offer for Sale Document in 1984 referred to the "XJ-S sports car range", but the subsequent Annual Reports were generally careful to refer to the "XJ-S range", or "XJ-S Coupe", although the wholesales statistics tables in all of the Annual Reports continued to label the range as the "XJ-S sports car". Whether this testified to an internal debate on the issue is unclear, but Dale was adamant that in the 1980s Jaguar did not sell sports cars.[45] Certainly, Jaguar had a different image in the US from the UK. According to Bennett, UK customers viewed Jaguar as a "Luxury sports car, or a sports saloon" whilst in the US Jaguar's sporting heritage was almost ignored, Americans seeing Jaguar purely as a luxury car.[46] However, Jaguar appears to have admitted that it was not in the sports car business with its statements in 1987 that it intended to re-enter the sports car market with the XJ41, or "F-type", which was under development throughout the 1980s, and which would directly compete with Porsche.[47]

Throughout the 1980s, "face-lifts" continued to be a feature of Jaguar's product strategy, with, for example, the top of the range Jaguar Vanden Plas saloon being introduced into the US market, Jaguar being unable to use the Daimler name in the USA. The XJ-S offered more scope for "spin-offs" which included the HE ("High Efficiency")

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[42] Harvey, Chris. *Great Marques. Jaguar* (London, 1982). p75.
[43] Thorley. *op.cit.* p126; Harvey. *op.cit.* p75.
[44] Whisler, Timothy R. *At the End of the Road. The Rise and Fall of Austin-Healey, MG, and Triumph Sports Cars.* (Greenwich and London, 1995). pp11-12.
[45] Mike Dale Interview. *Appendix* p43.
[46] Martin Bennett. Interview with the author. July 2008. *Appendix* p12.
[47] John Edwards, meeting with the author January 1987 (Author's own contemporaneous notes); *Automotive News.* 26 October 1987.

version, a cabriolet version, and then a convertible model. The convertible model was initially manufactured, in 1986, as a two-seater conversion by Hess and Eisenhardt of Cincinnati, who built a total of 2,000 cars under contract to Jaguar Inc[48], and from 1988 onwards by Jaguar itself. In 1983 the XJ-S was also offered in a version with the new 3.6 litre AJ6 ("Advanced Jaguar" six cylinder) engine, only the third engine to have been designed and developed by Jaguar.

Indeed, the new engine was a very necessary innovation since, by the early 1980s, Jaguar's engine range was looking extremely dated. The XK engine had been launched in 1948[49] and, as Beasley remarked, "as wonderful a job as it did for Jaguar, by the mid 1980s was getting tired, and it was certainly well amortised kit that it was made on".[50] Jaguar also produced the J60 engine, a variant of the XK, used to power military vehicles, although this was a very small part of Jaguar's overall engine production. The 5.3 litre V12 engine, developed to compete with the V8 engine in the US market, had been first launched in 1971 to power the iconic Series 3 E-type sports car, and was then used to power the XJ-S when introduced in 1975, although a V12-engined version of the XJ saloon had been introduced in 1972.[51]

Unlike its competitors, Jaguar did not offer a diesel-engined car, although in 1981 it did announce that it would launch a six-cylinder turbo-diesel version of the Series III in the US market in 1983 using a bought-in unit from VM of Italy, pending development of its own diesel engine.[52] This was reaffirmed by Egan in 1982, who remarked that this was "a comparatively low-cost risk" solution that freed Jaguar from "the enormous financial burden of developing its own diesel".[53] Even so, cost did not appear to have been the major issue, for, as Putnam revealed, "The reason that Jaguar didn't have diesels for such a long time was that to the engineering guys it wasn't sexy".[54] In the event, the promised diesel-engined Jaguar car did not materialise, and whilst the 1982 and 1983 decline of the US diesel car market[55] gave an acceptable pretext for the

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[48] Mike Dale Interview. *Appendix* p35.
[49] Thorley. *op.cit.* p54.
[50] Mike Beasley. Interview with the author. February 2003. *Appendix* p6.
[51] Thorley. *op.cit.* p122.
[52] *Automotive News.* 10 August 1981.
[53] Quoted in *Automotive News.* 17 May 1982.
[54] Roger Putnam Interview. *Appendix* p122.
[55] *Automotive News.* 8 November 1982; 24 October 1983.

non-appearance of the car, the actual reason appears to have been that the VM engine was "a 'dog'. It was very 'agricultural', and Jaguar just couldn't put it in its cars".[56]

In 1986 Jaguar launched the XJ40 saloon, its first all-new model for 18 years, in the UK and Europe. This was available in three models: the Jaguar XJ6, the Jaguar Sovereign, and the top of the range Daimler, and with two engine sizes (2.9- and 3.6-litre), except the Daimler which offered only the larger engine.[57] In 1987 the XJ40 was launched in North America, available in two versions, the XJ6 and the top of the range Vanden Plas. Of great significance was that the new, more fuel efficient, engine freed Jaguar of its Corporate Average Fuel Economy (CAFE) burden, CAFE penalties being levied by the US government for failure to meet average fuel consumption standards which were set on an annual basis and applied to a manufacturer's total range. In 1986 Jaguar incurred a CAFE penalty of some $8million.[58] At the end of 1989, in response to the entry of the Japanese in the US luxury car segment and lower sales, Jaguar launched a number of "face-lift" models, with price, for the first time under Egan's management, being a factor. Here, a lower specification XJ6 model at a lower price - $39,700, against $44,000 for the previous year's base price - was introduced, whilst the previous year's XJ6 was re-badged "Jaguar Sovereign", given additional equipment, and priced at $43,000. However, somewhat paradoxically, at the same time a plush top of the range model, the Vanden Plas Majestic, was introduced, priced at $53,000.[59]

5.4 The Competitive Environment

In Section 5.2 above it was suggested that Jaguar's shortcomings in regard to marketing information and research resulted in a lack of awareness of the competitive environment, which gave scope for debate within Jaguar as to the parameters of its markets, and the identification of its competitors. These aspects are important in regard to such areas as product planning, pricing policy, and advertising and promotion, and this present section aims to explore the main issues involved for Jaguar.

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[56] Roger Putnam. Telephone conversation with the author. July 2007. *Appendix* p122n136.
[57] Jaguar Information Pack - XJ6 (XJ40) Launch. 1986.
[58] *Automotive News*. 6 April 1987.
[59] *Automotive News*. 18 September 1989.

Although Jaguar defined its activity as being within the luxury, or prestige, market worldwide, there was some debate as to what constituted the parameters of this market. Certainly, there was some overlap with the "executive car" market in terms of price and specification, and, as already mentioned, it was problematic as to whether Jaguar was actually competing in the sports car market.

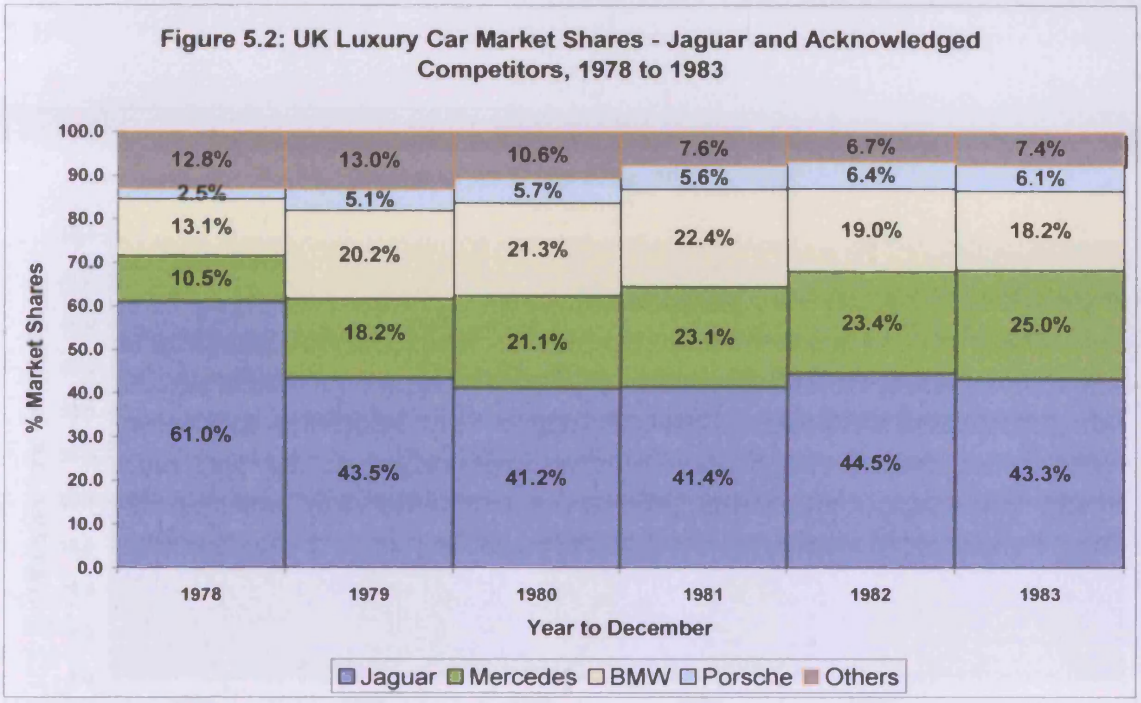
Price is one parameter that can be used to define a market segment, with most observers in 1986 excluding models priced at below $20,000 in the USA from the luxury category.[60] However, it is undoubtedly germane to consider classifying a prestige car in terms of the perceived status conferred by ownership of a particular marque, as well as high price. This differed between markets, for, as Bennett pointed out, the Mercedes brand was regarded as pure luxury in the US market, but was a brand that also had a utilitarian image in Germany.[61]

With the ending of production for many of the UK specialist marques, such as Jowlett and Armstrong Siddeley, noted in Section 3.3 above, and with the demise of MG and Triumph sports cars, Jaguar by 1980 had become the only UK manufacturer producing specialist cars in reasonable volumes, although still small compared with the volumes produced by the likes of Ford and Vauxhall. Also the demise of MG/Triumph resulted in the specialist car market segment becoming in effect the luxury car segment, with what remained of the sports car manufacturers, mainly Lotus, Aston Martin, and Morgan, producing but a few hundred units each per year.[62] During the 1980s Jaguar's production volume as a proportion of total UK car production grew from 1.4% in 1980 to peak at 4.23% in 1988. This demonstrated the diminished relative importance of the UK specialist car sector compared, for example, to 1947 when, as shown in Table 3.3 above, the specialist car segment accounted for 9.2% of total UK car production. Unsurprisingly, therefore, Jaguar's main competitors were now overseas producers. In the Offer for Sale document in 1984, Jaguar's main competitors in the UK were listed as being Mercedes, BMW, and Porsche, although it was pointed out then that only certain, unidentified, models were regarded as competing. It was not too surprising, therefore, given the nature of the source document concerned, that Jaguar claimed market leadership of this

[60] Prudential-Bache Investment Circular. 13 April 1987
[61] Martin Bennett Interview. *Appendix* p17.
[62] SMMT Automotive Data Services Records.

narrowly defined segment, which it referred to as "the luxury car market", as shown in Figure 5.2.

Figure 5.2: UK Luxury Car Market Shares - Jaguar and Acknowledged Competitors, 1978 to 1983



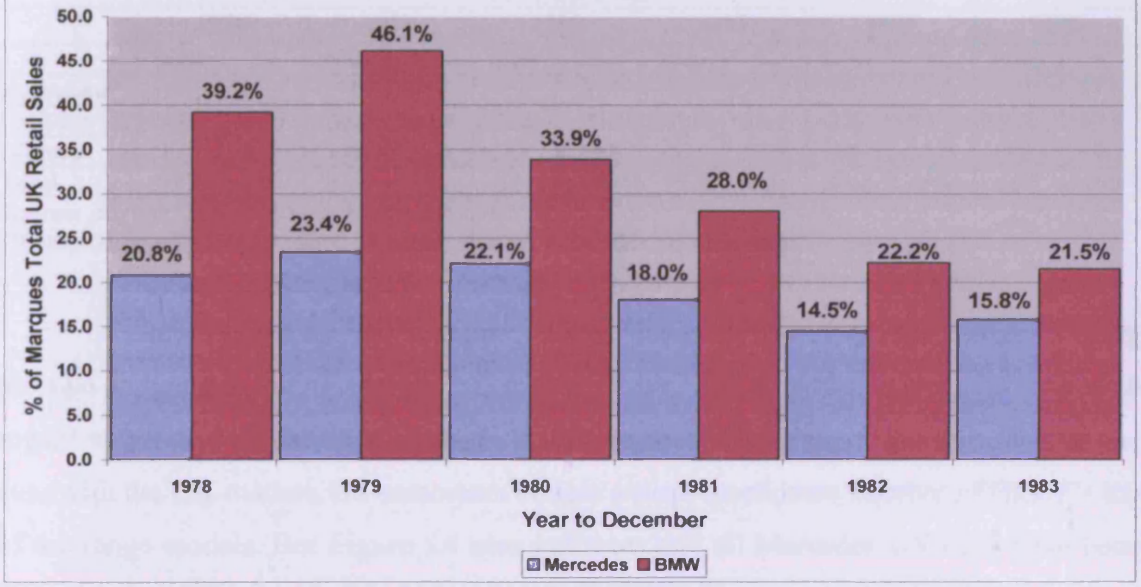
Source: Jaguar Offer for Sale Document, 1984.

Two other points here are of note. First, whilst the "Others" category, which accounts for as much as 13% of the segment, undoubtedly includes marques such as Rolls Royce and Aston Martin, it is unknown if it includes, for example, top of the range Saab or Volvo cars. Second, the inclusion of Porsche as a competitor at this time may have been motivated by Jaguar's desire to give itself a more glamorous image at the time of the company's public listing, but all the interviewees, when asked, excluded Porsche from Jaguar's list of direct competitors. This was due not only, in their view, to Jaguar not producing sports cars, but also to the fact that the two marques were aimed at two different markets, with Porsche being regarded very much as a "Yuppie" car[63], whilst "much of Jaguar's American clientele was 'old money'".[64]

[63] John Edwards. Meeting with the author, October 1987. (Author's own contemporaneous notes).
[64] Lorenz. *op.cit.* p255.

The result of Jaguar defining its market segment in terms of its own product range, rather than in terms of more objective criteria, may be ascertained by examining Mercedes and BMW competing sales as a proportion of their total sales, shown in Figure 5.3.

Figure 5.3: Mercedes and BMW % of UK Retail Sales regarded by Jaguar as Competing, 1978 to 1983



Source: Jaguar Offer for Sale Document, 1984; SMMT Archives.

As can be seen, less than half of Mercedes sales, and less than a quarter of BMW's sales were considered by Jaguar to be competing with it in the period 1978 to 1983. At the time of the launch of the XJ40 in 1986, Jaguar defined the UK luxury car segment as comprising "the Mercedes 'S' class, and the 7 Series BMW in addition to Jaguar, and low volume producers like Rolls Royce".[65] Given that BMW 7 Series production in total in the period 1980 to 1983 represented only 8.5% of total worldwide sales of all BMW models in that period[66], it may be ascertained from Figure 5.3 that UK customers bought a disproportionate number of BMW's top of the range models.

[65] Jaguar Information Pack - XJ6 (XJ40) Launch., 1986.
[66] e-mails from BMW Business and Finance Communication Department, Munich 25 September 2008 (total BMW sales); 29 September 2008 (7 Series production figures).

The important US luxury car market traditionally had been dominated by the domestically-manufactured Cadillac (owned by General Motors), and Lincoln (owned by Ford), but in the late 1970s and early 1980s the European marques within this market segment (as defined by Jaguar) succeeded in increasing their sales and market share, as shown in Table 5.2.

Table 5.2: Shares of Jaguar-defined US Luxury Car Market, 1978 to 1983

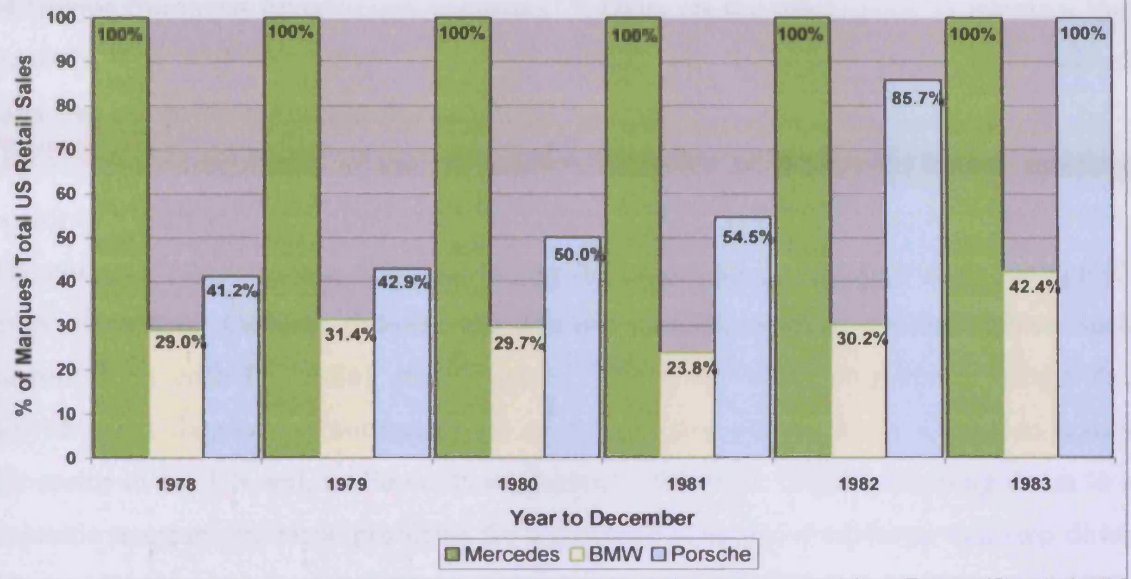
	1978		1979		1980		1981		1982		1983	
	000s	%	000s	%	000s	%	000s	%	000s	%	000s	%
European*	68	11.7	74	14.5	73	20.3	84	23.5	104	24.8	137	27.0
Cadillac	335	57.6	308	60.4	213	59.3	211	59.1	227	54.2	273	53.8
Lincoln	179	30.7	128	25.1	73	20.4	62	17.4	88	21.0	97	19.2
Total	582	100	510	100	359	100	357	100	419	100	507	100

Source: Jaguar Offer for Sale document, 1984
(*European group here consisted of Jaguar, BMW, Mercedes, and Porsche)

In its Offer for Sale document Jaguar listed its main US competitors as being the two indigenous marques plus Mercedes, BMW, and Porsche, but again only with regard to certain, unidentified, models. It can be seen from Figure 5.4 that, as was the case with the UK market, US customers bought a disproportionate number of BMW's top of the range models. But Figure 5.4 also indicates that all Mercedes US sales have been included, a problem with this being that Jaguar did not compete in the diesel-engined market, and some 75% of Mercedes sales in the US in both 1982 and 1983 were of diesel-engined cars.[67] Similarly, it is difficult to understand why the Porsche figures for 1982 and 1983 were so much higher than those for previous years. Even so, what appears to be the case is that, unlike the data provided for the UK, the US luxury car sector is being defined more objectively, not merely in terms of, and in relation to, Jaguar's own models. This more objective definition of the luxury car sector results in a somewhat different picture regarding market shares, with the European imports segment being dominated by Mercedes, as shown in Figure 5.5.

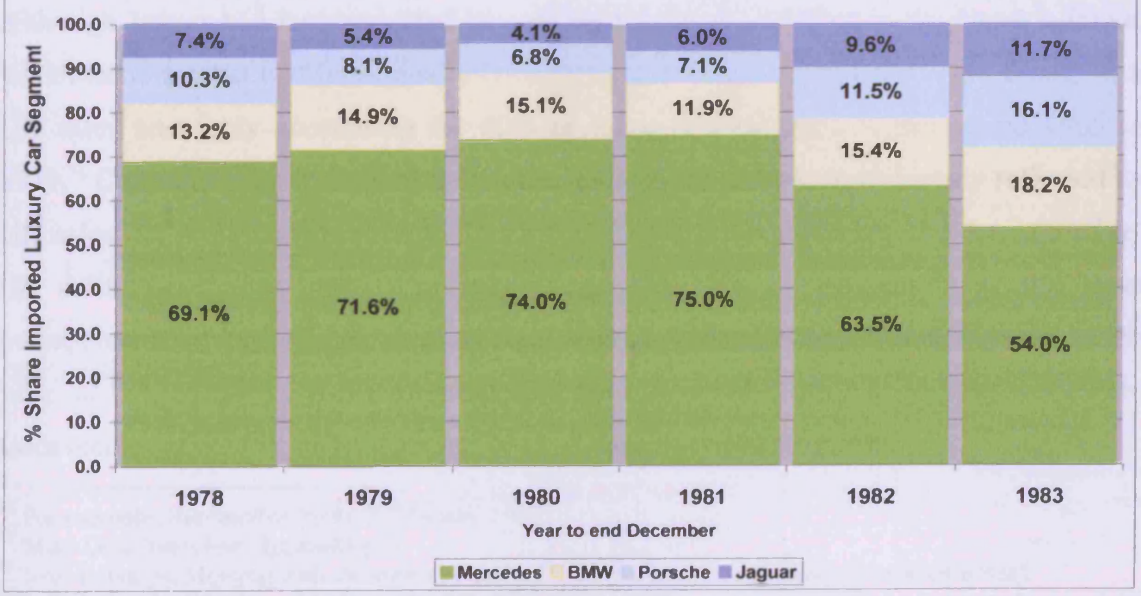
[67] *Automotive News*. 24 October 1983.

Figure 5.4: Mercedes, BMW, Porsche % of US Retail Sales regarded by Jaguar as Competing, 1978 to 1983



Source: Jaguar Offer for Sale Document, 1984; *Automotive News* Various Issues 1979-84.

Figure 5.5: US Luxury Car Market - Relative Shares of Major Importers Segment, 1978 to 1983



Source: Jaguar Offer for Sale Document, 1984.

However, trade publications such as *Automotive News* adopted a much wider definition of the sector and normally also included Audi, Volvo, and Saab in the category of "major European luxury-class exporters".[68] Dale, on the other hand, is adamant that Jaguar's only real competitor in the US market was Mercedes, until the arrival of Japanese competition in the sector in 1989.[69]

Consequently, in the US market, for most of the 1980s Jaguar carefully positioned itself in terms of price between the Cadillac Seville and the Mercedes 300E. The *raison d'être* here was that 25% of Jaguar's US sales at this time were "conquest" sales of existing Cadillac drivers, and Jaguar remained anxious not to frighten such custom away with forbidding sticker prices.[70] However, status or personal image also played a part. Jaguar was not one of the most expensive players in the European luxury car sector in the US and, as Edwards explained at the time, "whilst dropping down to a domestic marque can cause problems for a customer's image, a customer can step down from a Mercedes to a Jaguar without giving himself an image problem".[71] In April 1987, the Series III had a US sticker price of $37,500, compared to $32,000 fully optioned for the Cadillac Seville, $44,000 for the Mercedes 300E, and $42,500 for the BMW 735i.[72]

5.5 Geographical Markets - Overview

Although Jaguar had long exported its cars, as previously detailed in Section 3.3 above, its domestic market had traditionally been its largest single market and main focus, with UK sales invariably accounting for 40% or more of total sales in the period 1965 to 1979.[73] Consequently, until 1980 the pattern of Jaguar's sales overall largely reflected its UK sales. From 1981, however, the pattern of Jaguar's overall sales was determined by US sales, which had never previously exceeded 30% of the total[74], as the Egan management increasingly focused on that market. Consequently, Jaguar enjoyed seven years of US-led sales growth, as shown in Figure 5.6, with Jaguar's previous worldwide sales record, of 32,589 units achieved in 1971, being exceeded in 1984.

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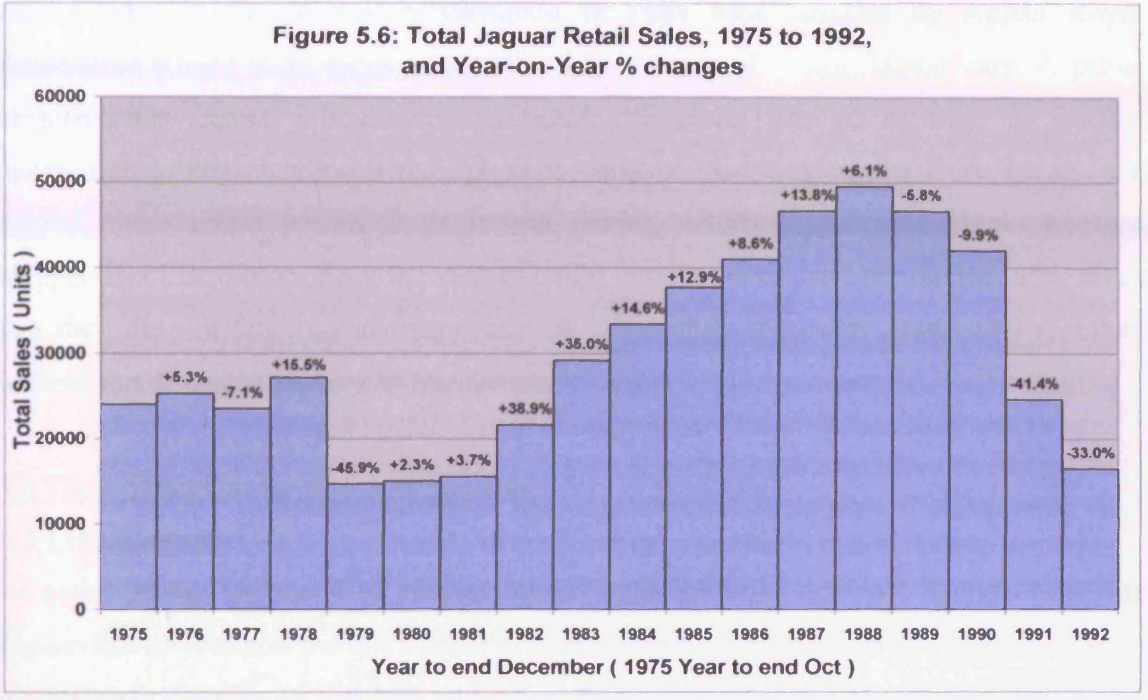
[68] For example, *Automotive News*. 2 February 1987.
[69] Mike Dale Interview. *Appendix* p43.
[70] John Edwards. Meeting with the author. October 1987.(Author's own contemporaneous notes).
[71] John Edwards. Meeting with the author. October 1987.(Author's own contemporaneous notes).
[72] *Automotive News*. 6 April 1987.
[73] Whyte. *op.cit.* p241.
[74] *Ibid.* p241, p247.

Indeed, the USA was the world's largest single market for luxury cars, representing some three-quarters of the total worldwide market, and over seven times the size of that of West Germany, the world's second largest luxury car market.[75] From 1982 onwards the US overtook the UK as Jaguar's major market, accounting for over 59% of its total sales in 1986, as can be seen in Figure 5.7.

The fact that UK and US sales combined accounted for 70% or more of Jaguar's annual total sales in the period 1982 to 1990 (shown in Figure 5.7) is testimony to the opportunistic nature of Jaguar's sales effort, Egan having stated in 1982 that, "We want to build the company on the basis of four legs. We want them all to be pretty similar in size – the UK, the US, Europe, and the Rest of the World".[76] Rather, Jaguar's success in the US market led to a radical change in its marketing strategy, with the increasing returns from that market sustaining that particular policy, leading to Jaguar's increasing dependence on the US market in this period. This led to two problems in particular. First, there was the need to design products to cater specifically for the somewhat different requirements of US consumers, something that the encrusted institutional structure of Jaguar's engineering department appeared unwilling to do, or incapable of accommodating, as noted by Scheele.[77] This inflexibility appeared to have Egan's tacit approval, reflected in his apparent refusal to listen to the US dealers' advice regarding the need for different product specifications in the US models.[78] Second, as a result of this US-focused marketing strategy Jaguar was unable to develop other markets sufficiently rapidly to compensate for any downturn in its major market, as happened after 1987.

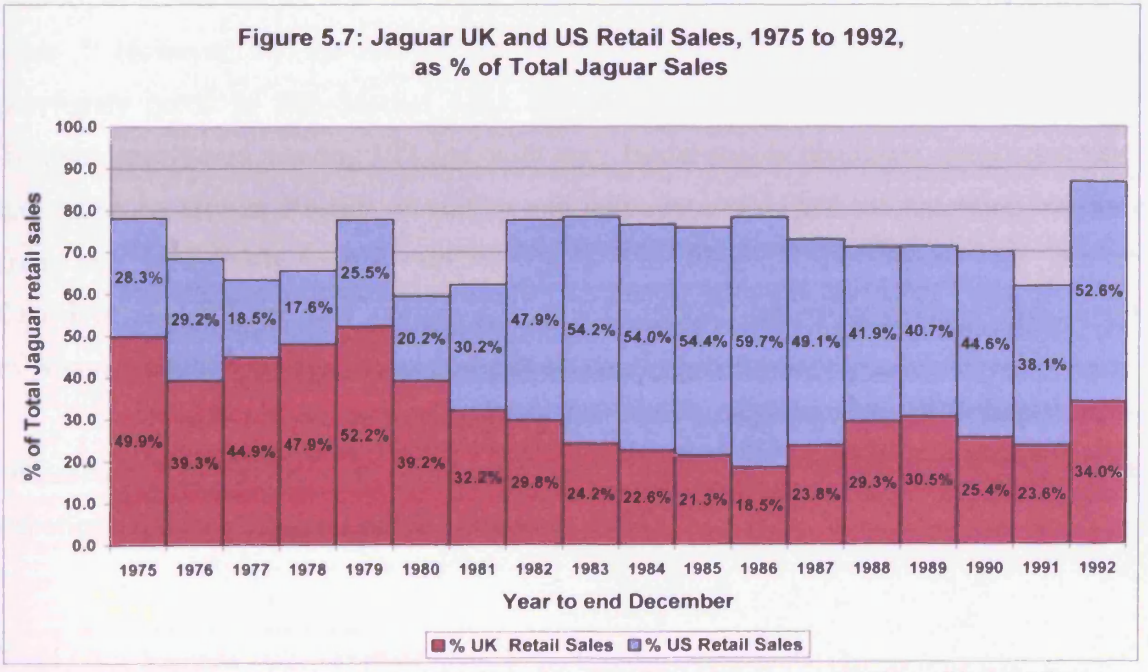
In the main, Jaguar's geographical sales pattern in the early 1980s was a product of the poor distribution system that Jaguar inherited from BL for, to sell its cars in any national market outside of the UK, Jaguar, like any other motor manufacturer, required a supporting network of distributors in each market which would appoint and service the dealers. These dealers hold stock, promote the product, act as the point of sale, and provide after sales service and technical backup to customers. In the UK, Jaguar itself was its own distributor, appointing and managing its dealers, and in Canada and the

[75] Jaguar Offer for Sale document 1984. p3.
[76] *Automotive News*. 17 May 1982.
[77] Nick Scheele. Interview with the author. May 2007. *Appendix* p136.
[78] Martin Bennett Interview. *Appendix* p15.



Source: Whyte p241; SMMT Automotive Data Services Records.

Note: Change of year end results in 1976 being a fifteen-month period. The figures for this year shown above are annualised (see also Figure 3.5)



Source: Whyte p247; SMMT Automotive Data Services Records; *Automotive News* Various Issues 1976-93.

USA Jaguar's distributors were wholly-owned subsidiaries. In other markets, however, Jaguar sales at the time of privatisation in 1984 were handled by Austin Rover distributors whose main focus of activity was not that of selling Jaguar cars. A prime objective for Jaguar following privatisation, therefore, was to increase its market penetration in these territories through appointing its own distributors. Even so, as Dale argued, there could be problems in not having wholly-owned distributors because independent distributors deny the manufacturer direct contact with the dealers and, given that they did not have an investment in the production line, they could cancel orders without any financial penalty to themselves.[79]

5.6 The US Market: Saviour and Nemesis

5.6.1 Background

As noted in Sub-Section 4.2.1 above, Jaguar's distributor in the USA in the 1970s was Jaguar-Rover-Triumph Inc (JRT Inc.), a wholly-owned subsidiary of BL, which had been established primarily to sell MG and Triumph sports cars. Dale related that whilst JRT Inc. "turned the US into one of the few profitable parts of the world for BL....Jaguar was a very small part of the business, only about 3,000-4,000 cars a year, out of 60,000-70,000, so it was neither here nor there. It was nice. It was the cream on the pudding as it were".[80] However, by the end of the 1970s JRT Inc. had reached a watershed. As previously noted in Sub-Section 4.2.1 above, BL had ended production of MG and Triumph sports cars, leaving JRT Inc. with only Jaguar cars to distribute. But Jaguar sales had fallen rapidly as a result of quality and delivery issues, and the recession resulting from the mid-1970s energy crisis which had affected the luxury car market. Consequently, JRT Inc. had to cope with an increasingly demoralized dealer body, many of whom thought that Jaguar was going bankrupt.[81]

Figure 5.8 shows that Jaguar's US sales halved between 1976 (which at an annualized 7,384 units were at a near record high) and 1980 (a year when Jaguar experienced its lowest level of US sales since 1954).

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[79] Mike Dale Interview. *Appendix* p33.
[80] Mike Dale Interview. *Appendix* p32.
[81] Mike Dale Interview. *Appendix* p39.

Figure 5.8: Jaguar US Retail Sales, 1975 to 1992, and Year-on-Year % Changes



Source: ***Automotive News*** **100 Year Almanac, 1996**

Jaguar's designated peer group experienced mixed fortunes in this period, as may be seen from Figure 5.9, Porsche suffering from the impact of the energy crisis, particularly fuel prices that had more than doubled, whilst, on the other hand, BMW benefited as a result of its smaller, more fuel-efficient, 3 Series range, and Mercedes benefited somewhat from the greater demand for diesel-engined cars.

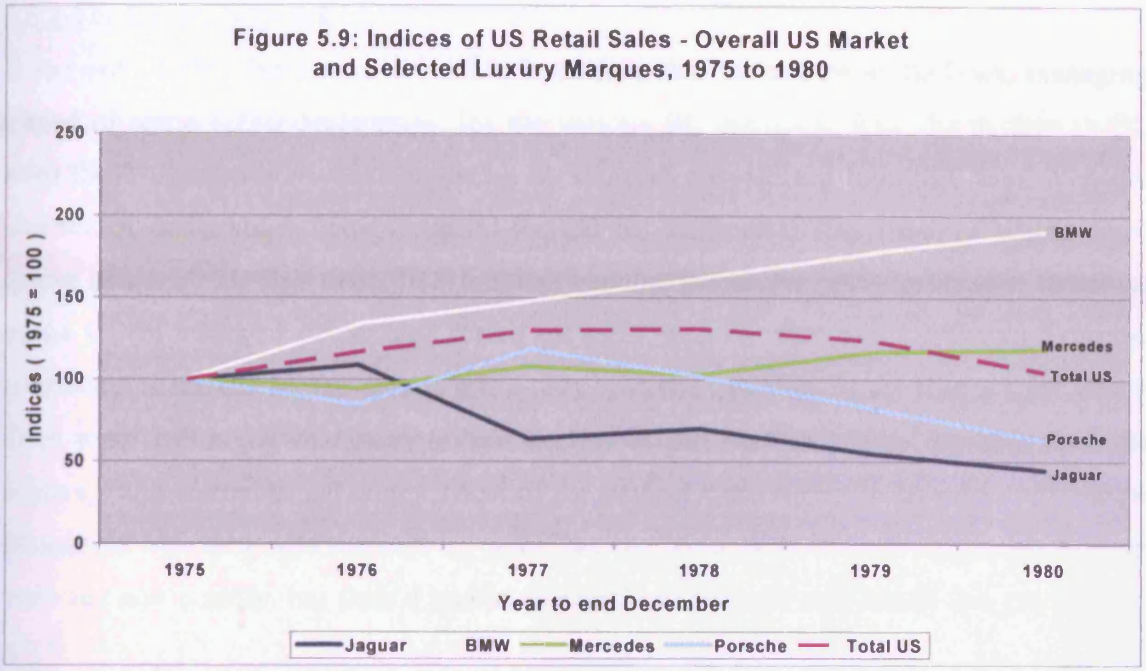
From 1981 onwards, as may also be seen in Figure 5.8, Jaguar experienced a significant renascence, before its fortunes again reversed as a result of the dire quality problems with the XJ40. The sales growth, according to Dale, was the product of:

> the dealership package, which was absolutely key to the whole thing; the £/$ relationship; the enthusiasm that John [Egan] had set off which really made us believe, and he really was trying to change things from a quality point of view; mass media advertising, and we had the best ten years of advertising that we'd done consistently.[82]

These factors are discussed in the following sub-sections of this chapter.

[82] Mike Dale Interview. *Appendix* p42.

Figure 5.9: Indices of US Retail Sales - Overall US Market and Selected Luxury Marques, 1975 to 1980



Source: ***Automotive News*** **100 Year Almanac, 1996.**

However, given his later comments, Dale is being somewhat charitable in regard to the initial impact of Egan on JRT Inc. since its senior management had discovered that at an early stage the Egan board had held secret discussions aimed at transferring the US distributorship to Lincoln Mercury. This would have resulted in Jaguar losing control of its distribution in the world's largest market as well as direct contact with its dealers, and would have "given away at least 5% of the margin forever, plus losing control of half the production line volume".[83] The offer made by Lincoln Mercury was to guarantee sales of 10,000 units in the first year, which was "a big temptation to a company desperate for sales and would have been a life saver in the short term".[84] Although the JRT Inc. management eventually persuaded Jaguar that having a wholly-owned distributor in the US was "the key to turning Jaguar around from both a profit and a volume point of view", the incident did nothing for the morale of the JRT Inc. senior management, or for its future relationships with Jaguar UK for, as Dale made clear, "we never trusted the [Jaguar] Board from then on".[85]

[83] Mike Dale Interview. *Appendix* p33.
[84] Mike Dale Interview. *Appendix* p33.
[85] Mike Dale Interview. *Appendix* p33.

5.6.2 The Dealer Network

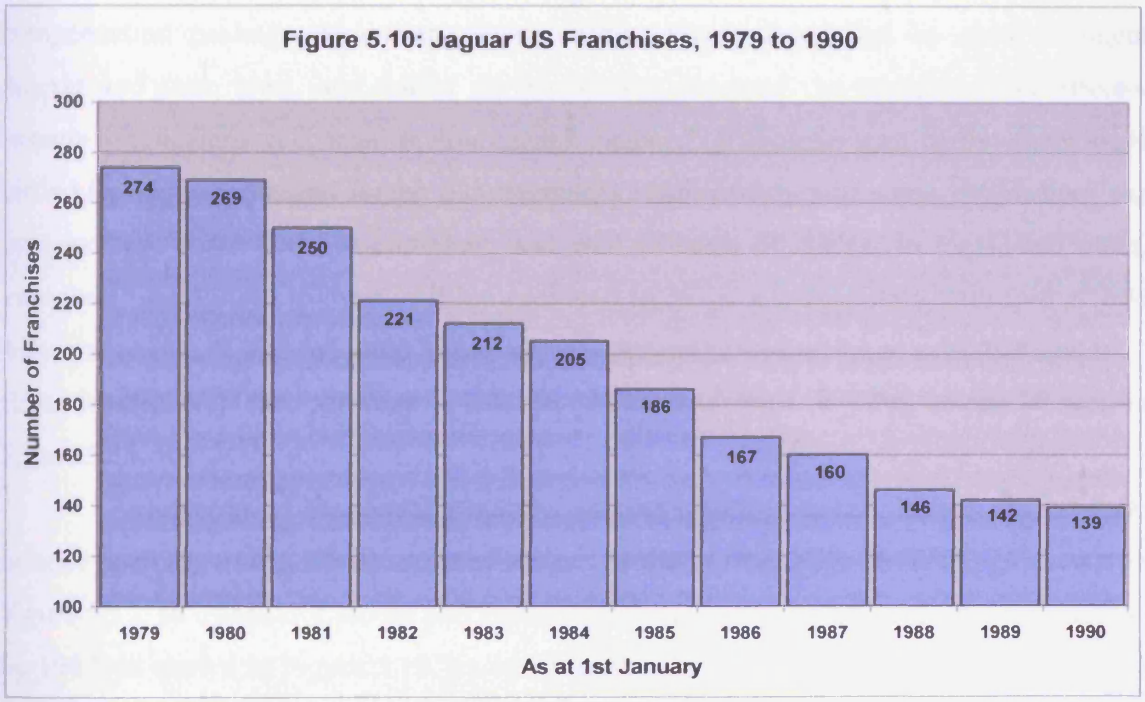
In the early 1970s there were several independent distributorships in the USA, managing a total of some 1,250 dealerships, for the various BL marques. With the decline in BL sales these distributors were bought up by BL and rationalised into JRT Inc., with the number of dealerships being reduced to 450 by the mid-1970s, most of whom were Jaguar dealers.[86] By this time, JRT Inc. had become the second most profitable franchise in the US in terms of percentage return on sales, and the demise of MG and Triumph sports cars at the end of the decade left it only with the troubled Jaguar marque, for which there were 269 somewhat demoralised dealers at the start of 1980.[87] By this time the dealers, "had started to get angry. Most of the dealers were local businessmen who knew the people who they sold the cars to, and if the car broke down they'd get people beating them up, not literally, but they'd go out to a cocktail party or something and get moaned at".[88]

Having been reassured by Egan that the Jaguar quality, and, more importantly, delivery, problems would be resolved, Dale and his team set about re-motivating the dealer body, encouraging the dealers to invest in cooperative advertising, and improve customer service levels. Motivating the dealer body was a major reason why Jaguar resumed sponsorship of a TransAm racing team with a rebuilt XJ-S in 1981, BL having abandoned racing in 1978.[89] In the 1981 season the Jaguar team won three of the nine races, and came second overall.[90] In early July 1981, on a trip that seems to have passed into folklore, and which appears to mark the turning point in Jaguar's fortunes, Dale took some eighty US dealers to visit Browns Lane. Many of these, according to Dale, returned to the US, "thoroughly fired up....and became the core of our turnaround effort".[91] Although Egan was later to claim the credit[92], the success of the visit was unquestionably Dale's accomplishment, with the final evening's dealer-inspiring after-

[86] Mike Dale e-mail to the author. July 2007. *Appendix* p39, n43.
[87] Mike Dale Interview. *Appendix* p38.
[88] John Edwards Interview. *Appendix* p50.
[89] Dale, Michael "How we rebuilt Jaguar in the US". *Fortune*. 28 April 1986. p115.
[90] Long, Brian. *Jaguar XJ-S. The Full Story of Jaguar's Grand Tourer*. (Dorchester, 2000). p133.
[91] Dale, Michael "How we rebuilt Jaguar in the US". *Fortune*. 28 April 1986. p114.
[92] Wood, Jonathan. *Wheels of Misfortune: The Rise and Fall of the British Motor Industry* (London, 1988). pp232-3.

dinner speech being delivered by Dale, not Egan.[93] The visit, according to Dale, was, however, "a last gasp. Some dealers wouldn't even come on the trip"[94]. Dale also recounted that, despite the apparent revitalisation of the marque, a number of dealers remained disillusioned and voluntarily gave up selling Jaguars, some being encouraged to do so by JRT Inc., "so that by 1984 we'd actually got them down to about 180 dealers without spending a cent".[95] Figure 5.10 shows the gradual reduction of the US dealer body.

Figure 5.10: Jaguar US Franchises, 1979 to 1990



Source: *Automotive News* Various Issues 1980 to 1991.

Reducing the number of dealers to a level determined by total US sales of some 20,000 cars per year was a key part of the strategy for success formulated by JRT Inc. (which as noted in Sub-Section 4.2.1 above, was renamed Jaguar Inc. in 1983 when its ownership was transferred from BL to Jaguar), since it had become apparent that the Jaguar franchise had to be made attractively profitable to a dealer in order to justify

[93] Dale. "How we rebuilt Jaguar in the US". p111; Mike Dale e-mail to the author. August 2007. *Appendix* p44n51.
[94] Mike Dale e-mail to the author. August 2007. *Appendix* p44n50.
[95] Mike Dale Interview. *Appendix* p39.

expensive investments in improving premises and service capability to the level of other European luxury cars.[96] As Dale later made clear:

> Our dealers couldn't afford the facilities, management, or equipment to compete. Worse, the average mechanic saw a Jaguar so rarely that regardless of how diligent his training, he could not be expected to possess the experience and skills of his counterparts at the competition. We had no choice but to shrink our dealer body to raise its quality.[97]

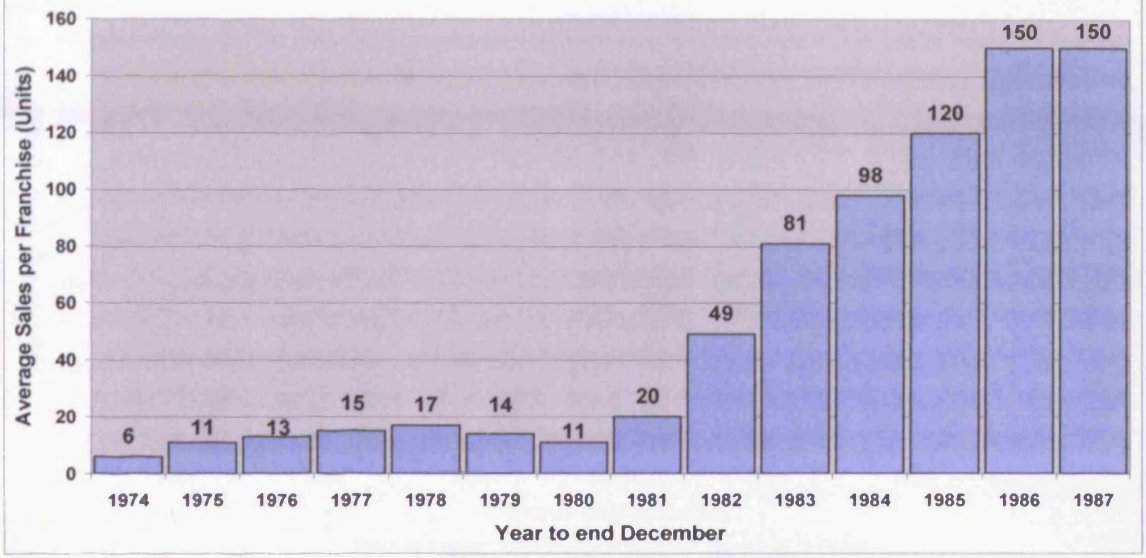
In mid-1984 Jaguar announced plans to get rid of 36 dealers, offering each a compensation package. However, dealers rights were safeguarded by quite stringent federal and state laws, and whilst eleven dealers accepted the compensation offered, twenty-five dealers took legal action against Jaguar.[98] Although most of the cases were settled by negotiation, and Jaguar did eventually reach its target of some 140 dealers, the process took eight years to complete, and cost millions of dollars in legal, and other, expenses[99] in addition to the £7million provided for as an extraordinary item in the 1984 Jaguar accounts.[100] The outcome, however, was dramatic, with average sales per dealer rising from eleven cars per year in 1980 to 150 cars per year in 1986, as can be seen in Figure 5.11.

In terms of the average number of cars sold per dealer, Jaguar moved from bottom position in the US luxury car sector, in the period 1975 to 1980, as shown in Figure 5.12, to overtake Lincoln and Porsche, and be within striking distance of Cadillac by 1987, as shown in Figure 5.13, by which time a Jaguar dealership had become a very attractive business opportunity. Jaguar and its dealers had now entered a virtuous circle for, as Jaguar's sales, and prices, increased, and dealer margins were uplifted by Jaguar, dealer profits increased substantially, with the average dealer gross profit rising from $1,500 per car in 1980 to $6,500 per car in 1985.[101] As Edwards remarked, "from being cranky old little dealers they started making big bucks. I think we made more American Dollar millionaires in that period than anyone. You know, their earnings went from

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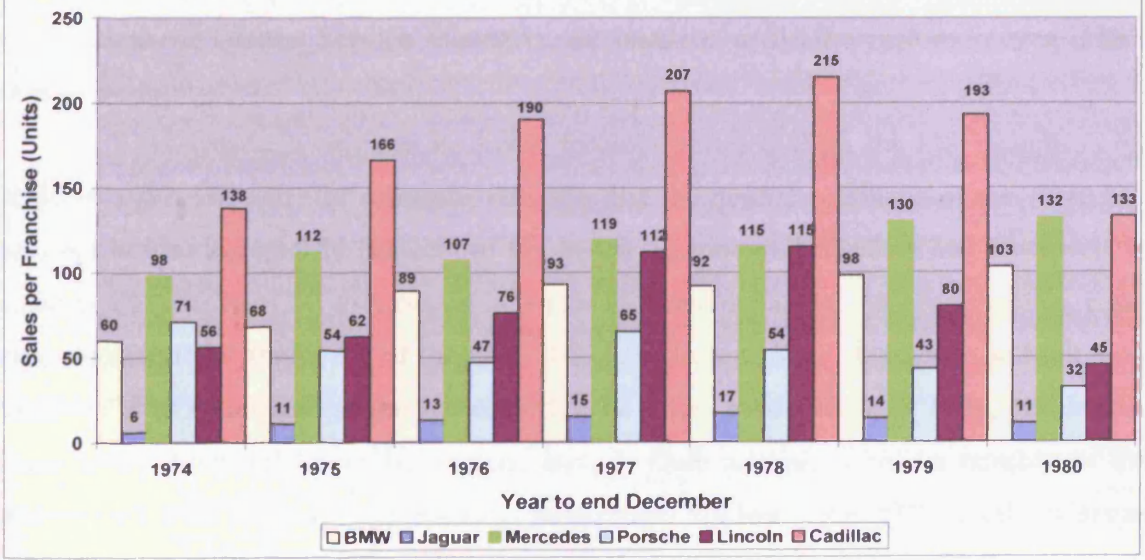
[96] *Automotive Age*. October 1985.
[97] Dale. "How we rebuilt Jaguar in the US". p119.
[98] *Ibid.* pp119-120.
[99] Mike Dale Interview. *Appendix* p40.
[100] Jaguar Annual Report and Accounts, 1984.
[101] Mike Dale Interview. *Appendix* p40.

Figure 5.11: Jaguar Average Annual Sales per US Franchise, 1974 to 1987



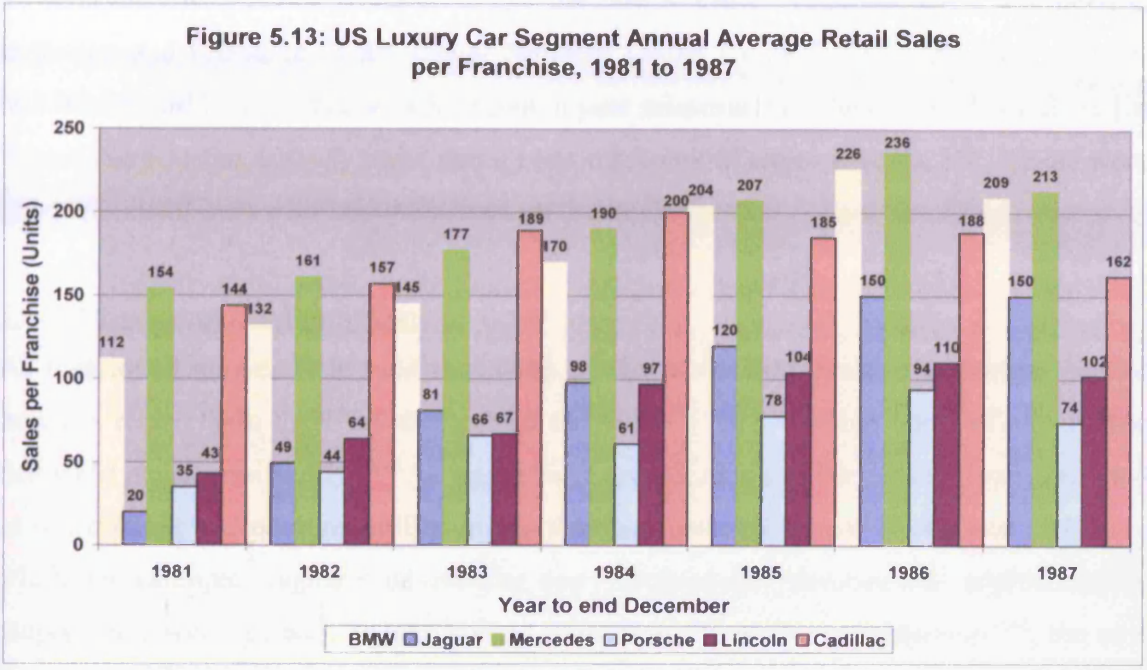
Source: *Automotive News*. **Various Issues 1975 to 1988.**

Figure 5.12: US Luxury Car Segment Average Annual Retail Sales per Franchise, 1974 to 1980



Source: *Automotive News*. **Various Issues 1975 to 1981.**

Figure 5.13: US Luxury Car Segment Annual Average Retail Sales per Franchise, 1981 to 1987



Source: ***Automotive News*****. Various Issues 1982 to 1988**

nothing to a million Dollars".[102] This meant, as Dale emphasised, that Jaguar "had enormous muscle with the quality. We were able to mask the quality [problems]....[because] there was this tremendous agreement between ourselves and the dealers, and the District Service Managers, for instance, to fix the customer, even if he's outside warranty".[103]

However, a reversal in dealer fortunes resulted from the US launch of the XJ40 in 1987. Bennett, for example, believes that the quality problems of the XJ40 had resulted in him losing fifty per cent of his Jaguar customers.[104] Dealers had borrowed, in some cases quite heavily, to invest in new premises and enhanced customer service, Egan reporting in 1989 that, "90 of Jaguar's 140 US dealers have upgraded or built new facilities".[105] Consequently, the dramatic fall in sales, particularly in 1991, resulted in some heavy financial losses by dealers, and, as Dale related, "Quite a number of the dealers here went bankrupt; quite a large percentage. We lost some really good dealers as

[102] John Edwards Interview. *Appendix* p51.
[103] Mike Dale Interview. *Appendix* p40.
[104] Martin Bennett Interview. *Appendix* p13.
[105] John Egan, quoted in *Automotive News*. 12 September 1988.

a result of the XJ40. There was a deep feeling of anger in the management of Jaguar Inc. towards the UK"[106], Dale going on to cite the case of Gene Fisher, owner of a dealership in Texas, and President of the Jaguar National Dealer Council: "This guy was a multi-millionaire and he ended up as a $160,000 a year salesman in a dealership down there [in Texas]. So you can see why there was a certain amount of anger with the UK. These were good friends of ours who laid their lives on the line".[107]

5.6.3 Advertising and Promotion

As mentioned above, Dale held that mass media advertising was an important part of Jaguar's recovery in the USA throughout the 1980s – "the best ten years of advertising that we'd done consistently".[108] As might be expected, much of the advertising was aimed at overcoming the poor reliability image that had haunted Jaguar in the late 1970s. In 1982, for example, Jaguar's advertising copy focused on "smoothness, sophistication, 'superb engineering', and 'Jaguar luxury' as well as the warranty protection"[109], the new Jaguar 36,000-mile two-year warranty having been introduced for the 1982 model year. Certainly, as noted in the next section, this was a message that, when combined with the revitalised dealer body, had a big impact on potential customers and was a significant factor in the sales increase at this time. Much of the advertising cost was shared, providing support for local or regional promotional campaigns by particular dealers, this accounting for some 50% of Jaguar Inc's total advertising spend of $3million in 1982.[110] However, advertising spend was low relative to Mercedes, which Dale regarded as being Jaguar's main competitor, with Jaguar relying more on PR in the recovery period. In 1985, for example, Jaguar spent $1.444million on television advertising, compared to $10.333million by Mercedes.[111] This amounted to $70 per car sold by Jaguar in the year, compared to $118 per car for Mercedes. Unsurprisingly, Jaguar's advertising spend

[106] Mike Dale Interview. *Appendix* p35.
[107] Mike Dale Interview. *Appendix* p36.
[108] Mike Dale Interview. *Appendix* p43.
[109] *Automotive News*. 26 April 1982.
[110] *Ibid.* 4 September 1983.
[111] *Ibid.* 10 March 1986.

increased significantly, to some $20million over the twelve months from May 1987, to support the launch of the XJ40.[112]

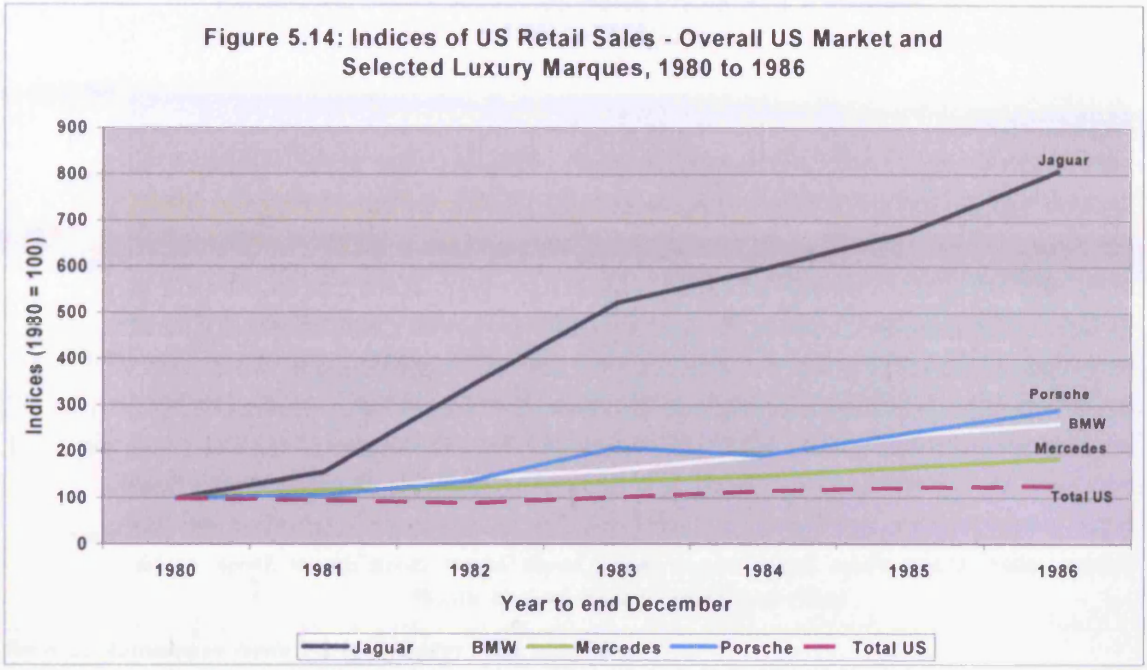
The PR campaign undertaken by Jaguar, apart from the obvious courting of the motoring press, aimed at more favourable press comment, had two main elements. The re-entry of Jaguar into motor racing, mentioned earlier, certainly gave Jaguar a great deal of positive press coverage, but what Dale regarded as the most important ingredient in the recovery was the quality tracking programme which commenced at the beginning of 1982. Every month a percentage of Jaguar customers were telephoned by the J D Power market research company and asked about their ownership experience, and if there was a problem the customer was put in touch with a District Service Manager who would endeavour to fix the problem.[113] Although having a very practical purpose, this programme proved to be a major factor in building the company's credibility.[114]

5.6.4 Renascence and New Horizons: 1981 to 1987

Jaguar's recovery was fairly rapid, aided initially by positive publicity following the appointment of Egan, a rapid improvement in deliveries, and a relatively strong imported luxury car market, compared to an overall US market that was in decline in both 1981 and 1982, as may be seen from Figure 5.14. Whilst the 55% increase in Jaguar's sales in 1981, albeit from the 25-year low suffered in 1980, was impressive, the real breakthrough was achieved in 1982 when Jaguar recorded a 120% increase in sales, as was shown in Figure 5.8 above, the 10,349 cars sold being a US sales record for Jaguar, and for the first time its US sales exceeded those in the UK. As previously mentioned, there were a number of factors involved, of which a perception of improved quality, and the very real improvement in dealer service were paramount. In 1983 Jaguar appeared in the J D Power Customer Satisfaction Index for the first time, lying in thirteenth place out of twenty-seven marques.[115] In 1984 Jaguar was placed sixth out of thirty-two marques, and in 1985 advanced one place again.[116] Such success was self-feeding, Jaguar enjoying continual growth in US sales from 1981 to 1986, as shown in Figure 5.14.

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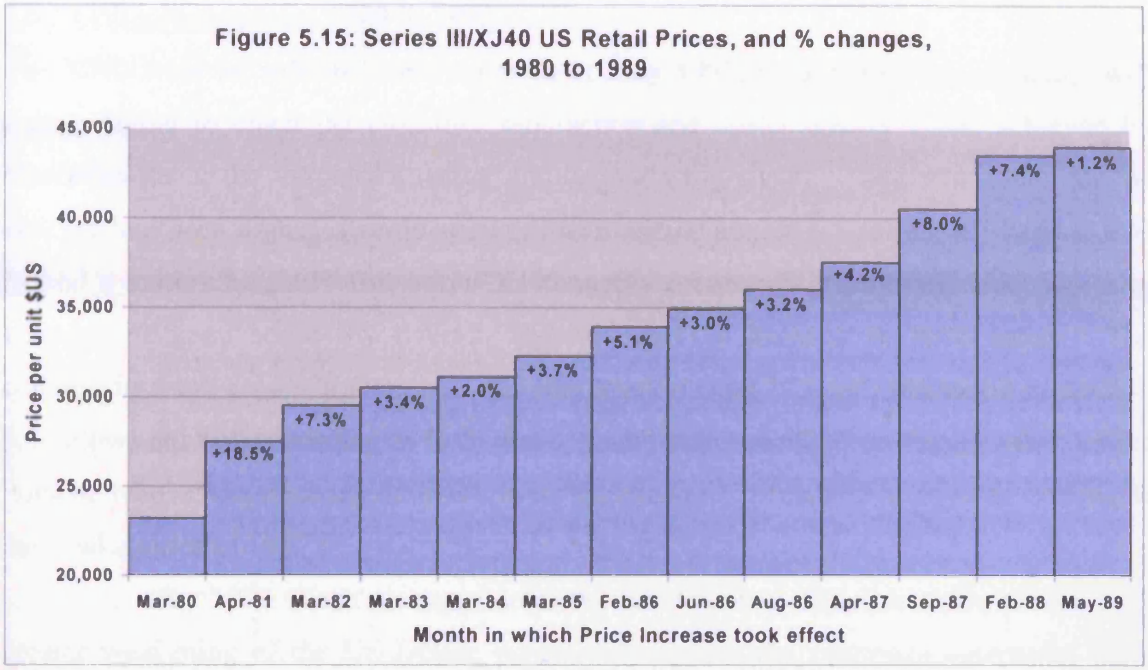
[112] *Ibid.* 6 April 1987.
[113] Dale, Michael. "How we rebuilt Jaguar in the 1980s". p115.
[114] *Automotive News.* 16 August 1982.
[115] Dale. "How we rebuilt Jaguar in the US". p119.
[116] Jaguar Annual Report and Accounts 1985. p13.



Source: ***Automotive News 100 Year Almanac, 1996***

In 1981 Jaguar was able to take advantage of the resurgence in its popularity in the US, and of its no longer being associated with the more down-market Triumph and MG products, as well as the strength of the US market for imported luxury cars, to impose a major price increase of 18.5% for the Series III 1982 model year vehicle. This was a model that was better equipped and was offered with an extended warranty. Continued strong growth in demand, and maintenance of the pricing differential against other luxury marques, permitted regular price increases, as shown in Figure 5.15.

In 1982 there was another significant increase, of 7.3%. More modest price increases followed in the next three years but, in 1986, as the Series III was run out, and perhaps to prepare the market for the introduction of the XJ40, there were three separate price increases put into effect, resulting in an overall 11.6% increase for the year. A further price increase of 4.2% was imposed in April 1987, giving an overall price increase of nearly 62% for the Series III compared to 1980.



Source: ***Automotive News*** **Various Issues 1981 to 1990**

Table 5.3 shows US list price comparisons between the Jaguar saloon model and its defined competing models, although it has to be noted that given changes in specification between years, these models are not always strictly comparable, with all manufacturers increasing the level of refinement and specification over this time period. As can be seen, Jaguar reduced the pricing differential in regard to its two defined competitors in the period, but ensured that BMW and Mercedes retained a premium in excess of 20% to the comparable Jaguar model.

Table 5.3: US Price Comparisons between Jaguar XJ6 and perceived competing models, 1980, 1987, and 1989 model years

Date	Jaguar XJ6	BMW 7 Series		Mercedes 300E (300SE in 1989)	
	List Price $	List Price $	Premium to XJ6	List Price $	Premium to XJ6
March 1980	23,200	28,945	25%	30,584	32%
April 1987	37,500	45,487	21%	46,500	24%
May 1989	44,000	54,000	23%	54,400	24%

Source: ***Automotive News*****.(1 March 1980, 3 April 1987, 9 May 1989)**

Note: Jaguar prices are for Series III in 1980 and 1987, and XJ40 in 1989. For BMW and Mercedes, the prices stated are for the mid-point of the range of prices stated for each model.

5.6.5 Götterdämmerung: 1988 to 1992

The XJ40 went on sale in North America in May 1987, heralded as the car that, "will enable Jaguar to reach the customer satisfaction and dealer quality levels achieved by Mercedes-Benz, the industry's leader and Jaguar's big rival".[117] Jaguar's hopes for the new car had been high, Edwards opining that eventual annual US sales of 30,000-35,000 looked a modest target.[118] But initial XJ40 supply constraints meant that 1987 US sales volumes declined some 6% overall, despite the 11% increase in XJ-S sales.[119] The collapse in share prices in October 1987 (the stock market "Crash", discussed in Section 9.4 below) did not, according to Dale, have "much effect at all"[120] on Jaguar sales, unlike Porsche whose "dependence on Wall Street yuppiedom"[121] resulted in its sales halving in the final quarter of 1987.[122]

The 1987 Crash presaged an economic downturn that was accompanied by a greater weakening of the US Dollar, particularly against the European currencies. This caused Mercedes and BMW in particular to raise further their US prices, as has been shown in Table 5.3, to compensate for the lower Deutschmark revenues. This, in turn, led to falling demand for European luxury cars. Two other factors impacted on the sales of the European luxury imports at this time. First, the improvements in quality of both Cadillac and Lincoln resulted in strong relative sales performances. As noted in Section 5.4 above, the European models commanded a significant premium to the domestic offerings, the Series III in 1987, for example being priced some 17% higher than the Cadillac Seville.

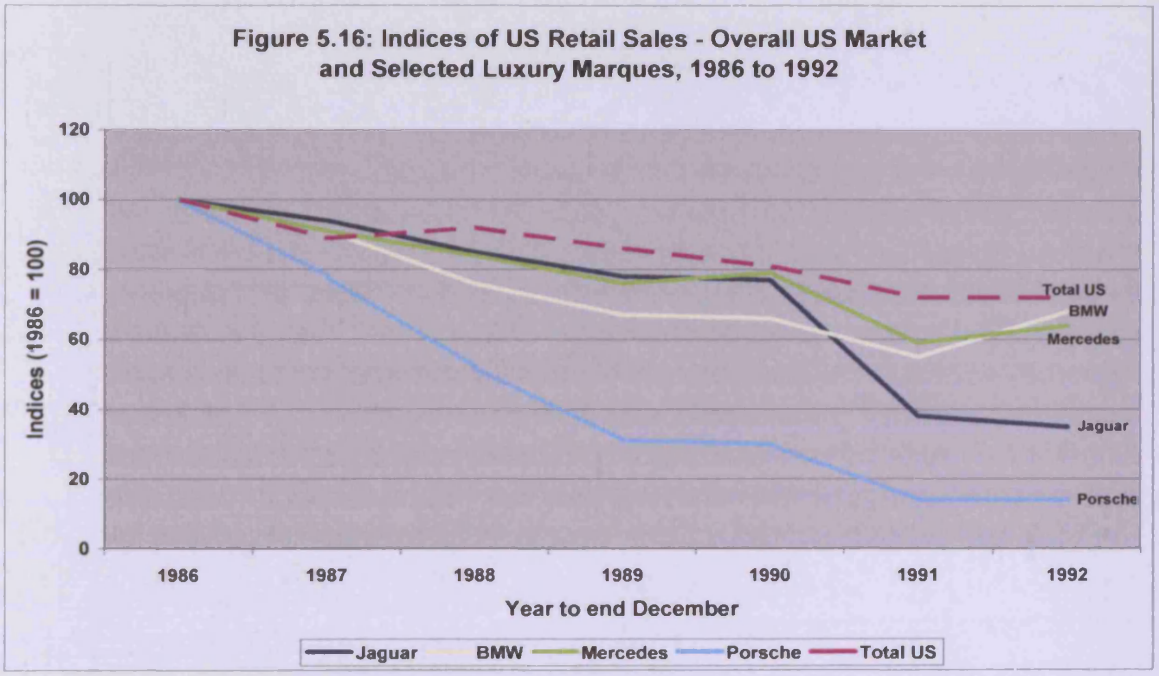
In the 1988 JD Power Customer Satisfaction Index, Lincoln moved to sixth place (from twelfth place in 1987), and Cadillac moved to fourth place, from seventh.[123] Cadillac sales were largely unchanged in the period 1987 to 1990, but Lincoln sales grew steadily, giving a 39% increase by 1990 on the 166,000 cars sold in 1987. The European imports, on the other hand, saw a continual deterioration in US sales during this period, as shown by Figure 5.16.

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[117] *Automotive News*. 6 April 1987.
[118] John Edwards. Meeting with the author. January 1987. (Author's own contemporaneous notes).
[119] Jaguar Annual Report and Accounts 1987. p17
[120] Mike Dale Interview. *Appendix* p42.
[121] Lorenz. *op cit.* p255.
[122] *Automotive News 100 Year Almanac, 1996.*
[123] *Automotive News*. 8 August 1988.

Second, the entry of the Japanese into the US luxury sector in 1989 had an immediate impact. This was a threat that had not been recognised by the Jaguar board, despite continual warnings by Dale[124], although here it has to be noted that motor industry experts such as Bhaskar *et al* were arguing in 1984 that the Japanese were "not a real risk in the short run".[125] However, in the first four months following its launch in September 1989, Toyota achieved sales of 16,302 cars for the Lexus LS400, with a base price of

Figure 5.16: Indices of US Retail Sales - Overall US Market and Selected Luxury Marques, 1986 to 1992



Source: ***Automotive News 100 Year Almanac, 1996.***

$35,000[126], compared with sales of 14,509 XJ40s in the full twelve months of 1989.[127] The XJ40 had a base price of $44,000, as shown in Table 5.3, but this was lowered to $39,700 at the time of the Lexus launch with the introduction of a lower specification model, discussed below. In calendar year 1990, its first full year of sales, Lexus sold a total of 63,534 cars, almost equalling total BMW sales of 63,646 cars, and Nissan's Infiniti Q45, with a base price of $38,000[128], achieved sales of 23,960 cars, compared

[124] Mike Dale Interview. *Appendix* p43.
[125] Bhaskar, K N *et al. Jaguar: An Investor's Guide* (University of East Anglia, 1984). p22.
[126] *Automotive News*. 21 August 1989.
[127] *Automotive News 100 Year Almanac, 1996.*
[128] *Automotive News*. 21 August 1989.

with 13,958 XJ40s, and total Mercedes sales of 78,375 cars.[129]

In this environment, and well ahead of the entry of the Japanese, both Mercedes and BMW resorted to offering incentives to dealers and customers, measures previously unheard of from these manufacturers.[130] At first, Jaguar, shielded by the backlog of orders for the XJ40, with its first quarter 1988 sales being ahead nearly 9% of the comparable 1987 period, and with supply not meeting demand until April 1988[131], refrained from discounting or offering "disruptive and expensive sales incentives".[132] This policy was continued throughout 1988, despite sales for the remainder of the year falling below those of 1987, resulting in overall 1988 sales, at 20,727, being 9.6% lower than those of 1987. However, the situation was far worse for Jaguar than the actual fall in sales indicated. Having initially forecast 1988 US sales of some 28,000 cars[133], the actual outcome was some 26% below this expectation. Indeed, in December 1987 Edwards had stated that if 1988 US sales did not reach 24,000 then profits would be adversely affected[134], but by June 1988 Jaguar were admitting that sales of 23,000 was the maximum that could be achieved in the US in 1988.[135] By June 1989, with a further downturn in sales, Jaguar finally admitted defeat and started to offer limited financial discounts to US customers in order to offload 1989 model year cars before the new model year[136], a tactic last used by Jaguar in 1980 when seeking to offload 1979 model year Series III V12 cars.[137] In addition, Jaguar dealers were offering customer discounts of $1,000-$2,000 on the $44,000 XJ40.[138] In September 1989, Jaguar announced a lower-priced, lower-specification version of the XJ40 for the US market, retailing at $5,000 less than the previously cheapest XJ40 model, and also reduced the standard XJ40 price by $1,000.[139]

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[129] *Automotive News 100 Year Almanac, 1996.*
[130] *Automotive News*. 18 April 1988.
[131] *Idem.*
[132] Jaguar Annual Report and Accounts 1988. p17.
[133] John Edwards. Meeting with the author. October 1987 (Author's own contemporaneous notes); John Egan quoted in *Automotive News*. 14 December 1987.
[134] John Edwards. Meeting with the author. December 1987 (Author's own contemporaneous notes).
[135] Tom McDonnell, Investor Relations VP, Jaguar Inc. Telephone conversation with the author. June 1988. (Author's own contemporaneous notes).
[136] *Sunday Times*. 18 June 1989; *Automotive News* 21 August 1989.
[137] *Automotive News*. 10 March 1980.
[138] Jaguar City Investors Meeting. June 1989 (Author's own contemporaneous notes).
[139] *Automotive News*. 18 September 1989.

Despite such actions, Jaguar sales continued to decline, and by 1992 had fallen to only 38% of their 1987 level. Jaguar insisted that its declining US sales in this period resulted from the overall decline in US demand for luxury cars and the greater intensity of competition.[140] This was an explanation that seemed to be accepted without question, with a few exceptions, by the media at the time[141], and has been repeated so often that it appears to have gained the status of fact, and reiterated as such in most books focusing on Jaguar.[142] Indeed, in 2007 Lorenz still believed that it had been weak US market conditions *per se* that had adversely impacted Jaguar US sales volumes in 1987-92.[143] However, this is a view that ignores the performance of other luxury car manufacturers in this period. Whilst Jaguar's US sales in 1992 had collapsed to 38% of their 1987 level, for BMW the comparable figure was 75%, for Mercedes 70%, for Cadillac 82%, and 97% for Lincoln.[144] The Japanese, on the other hand, continued to make strong advances, Lexus sales of 92,890 in 1992 being 46% ahead of its 1990 sales, and Infiniti's 1992 sales of 44,387 represented an 85% increase over 1990.[145] Obviously, difficult market conditions alone are an insufficient explanation for Jaguar's US sales performance in this period.

The evidence indicates that the primary cause of Jaguar's falling sales in this period was the major quality problems suffered by the XJ40, detailed in Chapter Seven. However, Jaguar's well-honed disinformation and obfuscation skills kept news of these problems out of the public arena, with the only accurate contemporary account of the issues affecting Jaguar appearing to be that by Kenneth Fleet in *The Times*, who wrote unambiguously that, "it is quality....that is mainly responsible for falling sales".[146] But this was a statement that tended to be ignored by other commentators, particularly since there was no supporting evidence offered. Indeed, the fact that the 1989 JD Power Initial Quality Survey showed Jaguar having fallen to 31st place out of 37 marques[147] passed

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[140] For example: Jaguar City Results Meetings March 1989, and September 1989.
[141] For example: *The Times* 6 October 1988, *The Financial Times* 12 September 1989.
[142] Thorley *op.cit* p155; Lorenz *op.cit.* pp255-6; Underwood *op.cit* p163; Dugdale, John. *Jaguar in America.* (Otego, New York, 1993) p249.
[143] Andrew Lorenz Interview. *Appendix* p103.
[144] *Automotive News 100 Year Almanac, 1996.*
[145] *Idem.*
[146] *The Times.* 8 October 1988.
[147] *Automotive News.* 3 July 1989.

largely without comment.

That the problems with the XJ40 received very little media coverage in the USA was due largely to two factors. First, the improved service offered by dealers in fixing problems as a result, according to Dale, of the agreement, mentioned earlier, between Jaguar and its dealers "to fix the customer, even if he's outside warranty". This was recognised in the 1989 JD Power survey where, despite Jaguar being placed in the bottom ten, its dealers were rated in second position in their abilities to fix customers' problems.[148] Second, Jaguar's generosity regarding repairs and remedial work undertaken under warranty. In this regard Edwards remarked that, "We were paying people off to keep quiet in my view".[149] Weidinger recalled that, "In 1989 as much as 25% of our sales were replacing people's 1988 models to avoid lawsuits"[150], and later added:

> In May 1987 through to the following May to September I sold seventeen hundred bad XJ40s....Jaguar, to their credit, would pay, pay, pay, and pay to repair them. They never said no to the customers. In 1989 rather than have people who had 1988 Jaguars sue them they would try and get some money from them and put them in a new car. It was awful.[151]

Bennett recounted how Egan had complained about warranty costs "going through the roof", but observed that:

> when warranty costs are high it means dealers' service departments are busy, which on a short term perspective is okay, but on a long term perspective it is not because if they [the customers] have to keep coming in to the service department they'll go somewhere else and buy another car. And that's exactly what happened with XJ40. We couldn't get our service department big enough, we couldn't hire technicians fast enough to cope with the demand because the cars were just rolling back in time after time.[152]

However, the continued high level of problems with the XJ40 had an adverse impact on Jaguar's image and sales volumes that was cumulative, resulting, in turn, as mentioned earlier, in many of Jaguar's best dealers going out of business, thus diluting

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[148] *Idem.*
[149] John Edwards Interview. *Appendix* p14.
[150] Jake Weidinger. Interview with the author. May 2008. *Appendix* p146.
[151] Jake Weidinger Interview. *Appendix* p148.
[152] Martin Bennett Interview. *Appendix* p48.

Jaguar's customer service capability. Whilst little negative comment consequently appeared in the media, much was transmitted by word of mouth. As Dale explained:

> We were cocktail party chatter. But because in 1980 we sold only 3,500 or so cars, something like only 0.8% of the luxury car market, nobody [customers] had any real experience. Then all of a sudden our market penetration explodes and we're selling almost as many XJ40s as they're selling Mercedes 300Es. Now when we were selling 20,000 of these XJ40s, in the cocktail party circuit it was no longer legends, it was "You should see how they've screwed me". What we had done was poison the market. By the time we got to 1991 something like 85% of the luxury car market said they wouldn't even go into our showrooms because of our quality reputation.....We were really heading to extinction then.[153]

The situation was eventually turned around by the introduction of a new range of Jaguars in 1993/94, and the introduction of a leasing programme in the US – "because nobody'd buy a car".[154] Consequently Jaguar's US sales increased to 18,085 cars in 1995 from the low of 8,681 cars in 1992.

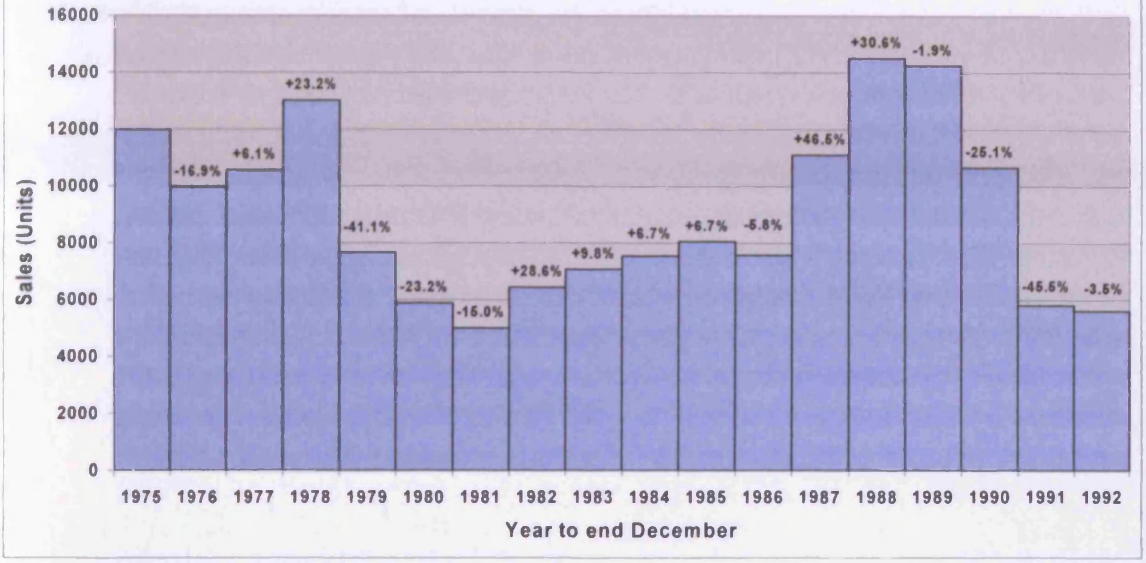
5.7 The UK Market

As mentioned in Section 5.5 above, the UK, Jaguar's domestic market, had traditionally been its major market, with sales, although variable, never falling below 10,000 units per annum in the period 1961 to 1978, and peaking at 15,925 units in 1974.[155] During this period Jaguar was probably the market leader in the UK luxury cars sector. However, the effects of the recession resulting from the mid-1970s energy crisis, together with quality problems, and production problems, particularly industrial action, resulted in a sharp fall in sales in 1979, to below 10,000 units, and further sales downturns in the following two years, as shown in Figure 5.17.

In 1982 Egan was to remark that for Jaguar the UK was the toughest market in the world "because Jaguar had so many disgruntled customers there".[156] This period is also marked by the fact that it was during this time that Jaguar was overtaken by both Mercedes and BMW in terms of volume sales, as can be seen in Figure 5.18, although Jaguar argued, as mentioned in Section 5.4 above, that it had leadership of the segment

[153] Mike Dale Interview. *Appendix* p41.
[154] Mike Dale Interview. *Appendix* p41.
[155] Whyte. *op.cit.* p241.
[156] John Egan quoted in *Automotive News*. 17 May 1982.

Figure 5.17: Jaguar UK Retail Sales, and Year-on-Year % Changes, 1975 to 1992



Source: Whyte p241; SMMT Automotive Data Services Records.

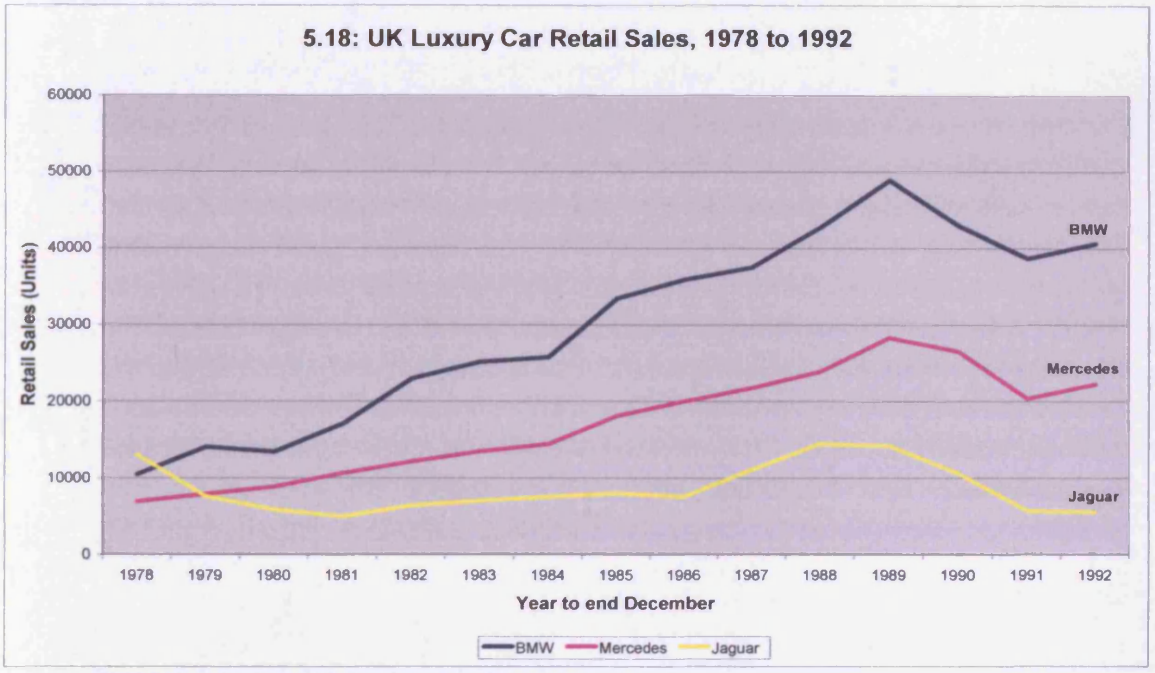
comprised of models similar to its own.

Unfortunately this is an argument which at best may be described as being somewhat disingenuous, but illustrative of the illusion Jaguar sought to create and maintain, and remained a feature of Jaguar's PR output. In respect of 1988 Jaguar was claiming that, "Daimler and Sovereign models continued their domination of the UK luxury saloon car sector, capturing a 56% share".[157]

Although sales increased after 1981, Jaguar's concentration on, and consequent re-direction of production to, the US market resulted, to all intents and purposes, in it putting the UK market on a care and maintenance basis until the dealer network was reorganized, and until the launch of the XJ40. This may have been a factor in the strengthening of both BMW's and Mercedes' positions in the market, but sales figures for particular model ranges during this period do not appear to be available. Indeed, BMW informed the author that it does not have records of the sales of its 7 Series for the 1980s.[158] Thus, although Jaguar sales are well below the totals of each of its defined competitors throughout the period, as can be seen from Figure 5.18, this has to be

[157] Jaguar Annual Report and Accounts 1988.
[158] e-mail from BMW Business and Finance Communication Department, Munich, 29 September 2008.

viewed in the context of the wider range of models offered by both BMW and Mercedes. Here, Finn made the observation that, "In the recession of the early 1990s Jaguar held its own against these, but the sales mix changed for both Mercedes and BMW. BMW's sales overall held up because they had the smaller 5 Series and 3 Series, and Mercedes because it had the smaller 190E".[159]



Source: SMMT Automotive Data Services Records.

The launch of the XJ40 into the UK market in 1986 was highly successful in terms of the interest, and demand, created, although supply constraints reduced the anticipated level of sales[160], and resulted in slightly lower sales for the year as a whole, the major impact of the new car being seen in the following three years, as can be seen in Figure 5.18, with the 1978 sales volume figure being exceeded in both 1988 and 1989.

A factor in the improved sales volumes in the UK, as in the US, was the rationalisation of the dealer body, and the development of a new type of dealer showroom – the "solus" outlet dedicated to Jaguar products, "without competing brands in the same

[159] Trevor Finn Interview. *Appendix* p80.
[160] Jaguar Annual Report and Accounts 1986.

showroom. or even more volume orientated brands".[161] Unlike the dealers in the US, Jaguar's UK dealers in the early 1980s were still also selling BL products and appeared to be locked in to a BL-formulated distribution system and were resistant to the need for rationalization and the changes that Jaguar wished to implement in regard to the creation of up-market premises and services that would reflect more Jaguar's luxury image. Here, Egan recalled that:

> One of the grandees of the dealer network....came to see me. He said he wasn't going to achieve these standards; he wasn't going to do them; he was going to have nothing to do with them. British Leyland had told him what to do and those were the standards he was going to live by, and as far as he was concerned he had spent the money, and that was it.[162]

This legacy of ingrained attitudes in the UK dealer network that Jaguar had inherited from BL was something that Egan was anxious to challenge and overcome for, as he pointed out, "We, generally speaking, separated from British Leyland whatever we were doing".[163] Even so, it is debateable as to whether Egan himself identified the problems inherent the UK dealer network, and the consequent constraints to Jaguar's sales growth, and took the lead in challenging and overcoming these, or merely provided the stamp of approval to the proposals formulated by others. That is, whether it was Egan or one of his subordinates who formulated and implemented the radical redirection of the traditional distribution system in the UK. Although Egan presents himself as being the driving force in the rationalization programme[164], Putnam presents a different picture. According to Putnam, it was he who led the rationalization programme, with Egan being loath to terminate some dealers until persuaded otherwise.[165] This view has some support from there being no indication of a UK dealer rationalization programme until Johnson, who had recently joined Jaguar from BL, announced the rationalization plan to the BL dealer council in March 1982.[166]

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[161] Trevor Finn Interview. *Appendix* p77.
[162] John Egan. Interview with the author. October 2007. *Appendix* p67.
[163] John Egan Interview. *Appendix* p67.
[164] John Egan Interview. *Appendix* p67.
[165] Roger Putnam Interview. *Appendix* p120.
[166] Whyte. *op.cit.* p179.

By this time, the dealer rationalization programme had already commenced in the USA through a process of attrition, as was described in Sub-Section 5.6.2 above, and which in many respects was a continuation of the huge reduction in BL franchises in the USA during the 1970s. Certainly, rationalization of the UK dealer network was nothing new to BL, Whisler noting that, between 1968 and 1975, BL had terminated 7,000 dealers, leaving it with some 4,000 dealers.[167] Even so, as was mentioned in Section 5.2 above, the 1980s Jaguar rationalization programme appears initially to have been a Jaguar Inc initiative, rather than an Egan-inspired Jaguar Group policy, but was one that was later taken up by the UK and European operations.

Similarly, it is unclear to what extent the up-grading of dealership premises, and services, originated with Jaguar itself, but certainly it appears that it was a development that was given considerable impetus by the ideas presented to Jaguar by Pendragon in 1983. Subsequently, Pendragon opened Jaguar's first solus dealership in the UK, and played a large part in formulating Jaguar's new corporate identity in the process[168], the new premises becoming a "showcase" dealership, typifying Jaguar's new corporate identity.[169]

The development of new premises required a significant amount of investment by dealers, and Finn recounted that most existing dealers reacted negatively to this development, with them describing solus premises as a "crazy" development since they would never be able to sell enough cars to get a return on the investment.[170]

As in the US, the impact of the rationalization and upgrading programme was dramatic, Putnam recalling that:

> I inherited some 300 dealerships under BL, giving away 15 cars each. If you took the demonstrators out, there'd be virtually no cars sold. We started in 1982 and by 1986 it was settling down at 100 cars per dealer at full margin....By 1988 we had 111 dealers selling an average 130 cars each. We took the dealer margin down....We were giving them 17.5%, and took that back down to 15%, and put 2.5% into a big pot. Those dealers who were prepared to invest in new premises took money out of this fund. That was the incentive....to get the dealers to invest.

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[167] Whisler. *The British Motor Industry.* p251.
[168] Trevor Finn Interview. *Appendix* p77.
[169] Roger Putnam Interview. *Appendix* p120; Trevor Finn Interview. *Appendix* p78.
[170] Trevor Finn Interview. *Appendix* p77.

> And those dealers that didn't want to invest went. And for 10 years the dealers made a lot of money in the UK.[171]

Putnam later added that the dealer rationalization programme "cost us nothing....They didn't have the degree of protection they had in the US, and it was done with great goodwill".[172] Consequently, "dealers made a fortune. It was probably the most profitable franchise in the UK".[173]

Much of the sales increase after 1986 appeared to be due to the introduction of the XJ40 2.9-litre version which had been targeted at the upper executive car sector, which included certain Ford models as well as Audi, Volvo, and mid-range BMWs, although Jaguar was quick to point out that with the new model it was "not entering the executive car market", merely lowering "the threshold of luxury car motoring".[174] Even so, the basic XJ40 2.9 was priced at £17,200 - below the price of the Rover Sterling, at £18,995, and the top-of-the-range Ford Granada 2.9 EFi Ghia at £17,478.[175] By 1988, Jaguar was claiming that the XJ40 was "taking 25% of its sales from rival products in the upper executive sector"[176], a statement that implied that Jaguar, with an overall sales increase of 30%, of which a third had resulted from increased sales of the XJ-S,[177] had actually lost sales for its higher-priced saloons, but which was masked by the claim that, "Daimler and Sovereign models continued their domination of the UK luxury saloon car sector".[178] It is of note, however, that the price differential between the Jaguar's higher priced XJ40 models and those of its German rivals in 1986 was not that great, the 3.6-litre Sovereign being priced at £24,995 against the BMW 735i at £20,550, and the Mercedes 380SEL at £24,995, and the Daimler 3.6-litre priced at £28,495 against the Mercedes 500SEL at £30,655.[179]

It is debateable, however, as to the extent to which the 2.9-litre model could be hailed as having been a success, one particular problem being that it was

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[171] Roger Putnam Interview. *Appendix* p120.
[172] Roger Putnam. Telephone conversation with the author. July 2007. *Appendix* p120n132.
[173] Roger Putnam Interview. *Appendix* p119.
[174] Jaguar Information Pack - XJ6 (XJ40) Launch, 1986.
[175] Phillips and Drew Investment Circular, May 1987.
[176] Jaguar Annual Report and Accounts 1988.
[177] Jaguar Annual Reports and Accounts 1987, 1988.
[178] Jaguar Annual Reports and Accounts 1988.
[179] Thorley, Nigel. *Jaguar XJ40. Buying, enjoying, modifying.* (Yeovil, 2002).p40; *Which Car?* March/April 1986.

underpowered. Finn described it as not really being able to "pull your hat off", and also having "a few problems technically".[180] The model was discontinued in 1990, by which time it had accounted for at most 10% of XJ40 total production in the period 1986 to 1990[181], actual production being, in reality, lower than this for, as mentioned in Section 2.1 above, Thorley notes that Jaguar's factory records do not differentiate between the XJ40 2.9-litre and 3.2-litre Standard/Daimler.

But despite the apparent expansion of the Jaguar customer base provided by the 2.9-litre model, and a motivated dealer body, UK sales fell sharply, in 1990 and again in 1991, the 45% sales plunge in 1991 paralleling the 50% fall in US sales in the same year. As with the US, the fall in sales was partly due to recessionary pressures, all three marques shown in Figure 5.18 seeing sales peaking in 1989 and then falling in the following two years. However, whilst BMW and Mercedes experienced an upturn in 1992, Jaguar saw a further small decline, and the extent of the downturn was more marked for Jaguar, as may be seen in Figure 5.19. Indeed, as with the US, whilst Jaguar's UK sales in 1992 had collapsed to 38% of their 1989 level, for BMW the comparable figure was 83%, and for Mercedes 79%. The issue in the UK, as with the US, was that of the quality of the XJ40 but, as in the US, Jaguar were able to prevent it entering the public arena, not only, according to Finn, because of the British being less demanding than consumers in the US, but also because of there being a nationalistic aspect: "There was an air of optimism that the British car industry wasn't finished.....everybody wanted it [Jaguar] to win. The Press wanted it to win. Customers wanted it to win. The dealers wanted it to win".[182] Dale supported this view, arguing that, in any case, "the UK press were not going to be anti-Jaguar".[183]

Putnam, attributed much of the success to the actions of the UK dealers:

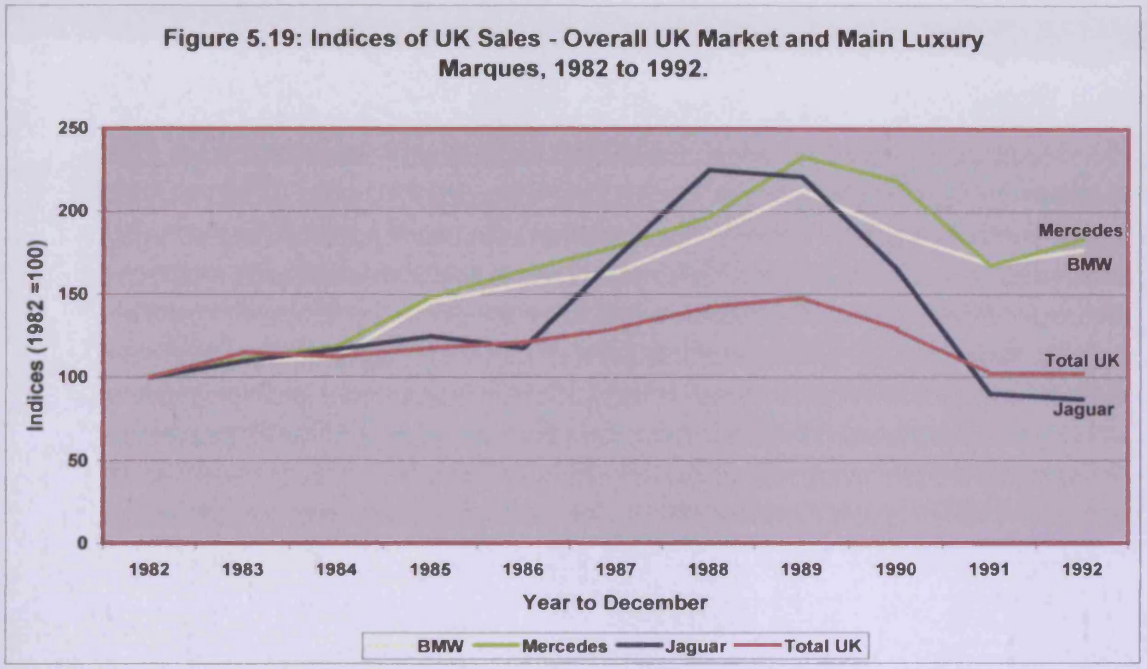
> In the UK and Europe we were able to maintain premiums with dealers who went to the final n^{th} degree to make sure customers were looked after, even when they were having constant problems[184],

[180] Trevor Finn Interview. *Appendix* p81.
[181] Thorley. *Jaguar XJ40.* p155.
[182] Trevor Finn Interview. *Appendix* p83.
[183] Mike Dale Interview. *Appendix* p38.
[184] Roger Putnam Interview. *Appendix* p119.

adding later that:

> We'd got the XJ40 absolutely flying away in the UK and the last thing we wanted to do was to see a big 'ho-ha' about the quality get out. We were actually quietly tackling the quality problem…..so as to not rock the boat.[185]

Figure 5.19: Indices of UK Sales - Overall UK Market and Main Luxury Marques, 1982 to 1992.



Source: SMMT Automotive Data Services Records.

Finn recalled how the XJ40 commanded a premium to the list price in the first two and a half years, as a result of UK demand outstripping supply, and customers not being too concerned about problems with the car because they knew that after a year they could get their money back on the car. In that sense, according to Finn, it was like "a bubble-type market".[186]

Unlike the very real concerns expressed by the US dealers regarding the quality problems of the XJ40, mentioned in Sub-Section 5.6.2 above, Finn welcomed the problems with the XJ40 because it gave dealers the "opportunity to demonstrate how good you were", and as a result of extremely good customer service and sorting out problems with the car the retention of those customers was "significantly greater than the

[185] Roger Putnam telephone conversation with the author. July 2007. *Appendix* p119n131.
[186] Trevor Finn Interview. *Appendix* pp81-82.

most reliable product in the market because customers love somebody looking after them".[187] However, Finn admitted that US customers were more quality focused than was the case in the UK, "and weren't used to products that were more quirky".[188] Putnam, lending support to these statements, opined that, "the UK market is the biggest pushover in the world, not just cars, but anything".[189]

However, as may be ascertained from the downturn in Jaguar's sales volumes after 1989, the bubble burst after three years, with the measures undertaken by Jaguar's dealers being insufficient to maintain sales, at least in line with those of other luxury car manufacturers.

5.8 Other Markets

As discussed in Section 5.5, Egan's stated intention in 1982 of developing four fairly similar-sized market legs became progressively unlikely to be achieved as Jaguar became focused increasingly on the US market. Indeed, during the period 1982 to 1992 the proportion of US and UK sales combined fell below 70% of Jaguar's total sales in only one year, as shown in Figure 5.7 above.

A major issue for Jaguar here was that of distribution, as mentioned in Section 5.5 above, and much effort was expended by Jaguar in appointing new distributors, although only a few of these changes were reported by Jaguar at the time. In the potentially important West German market in 1983, Jaguar and the Frey Group of Switzerland, a well established European distributor of cars, formed Jaguar Deutschland GmbH, of which Jaguar owned 35%.[190] In Japan, another market identified as being potentially very important, Jaguar appointed Jaguar Japan KK (60% owned by Seibu Group of Japan, 40% by Jaguar) as its distributor.[191] Both these arrangements presented potential problems in terms of Dale's argument about the desirability of having wholly-owned distributors, although it was only in the case of West Germany that Jaguar experienced significant difficulties.

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[187] Trevor Finn Interview. *Appendix* p82.
[188] Trevor Finn Interview. *Appendix* p83.
[189] Roger Putnam telephone conversation with the author. July 2007. *Appendix* p119n131.
[190] Jaguar Offer for Sale document 1984.
[191] Jaguar Annual Reports and Accounts 1986, 1987.

Indeed, Jaguar had continually held forth about the attractions of West Germany, the second largest luxury car market in the world, accounting for well over half of all European sales of luxury cars. In 1986 Jaguar estimated the size of the luxury car market in Continental Europe to be 60,000 cars per year, of which West Germany accounted for 40,000 cars.[192] However, although Jaguar was the only importer of luxury cars into Germany, it was the home market for Mercedes, BMW and Porsche, and Jaguar never succeeded in achieving a market share greater than 2% in the period 1982 to 1987.[193] Although Jaguar was not able to fully compete in the West German market given that a third of registrations there, and 25% of BMW cars sold there, in 1986 were diesel-engined cars[194], the main problem was that Jaguar appears to have had little understanding of, and was not able to control, its dealers, despite the formation of Jaguar Deutschland. As Putnam was later to explain, "the reason that BMW and Mercedes own most of their distribution in Germany is that the German dealers are a law unto themselves".[195]

In 1985 Jaguar was trumpeting its highest level of retail sales in West Germany – 2,350 units – only to discover later that this figure had been distorted by the re-sale of some 500 cars from Germany to the US, thus also undermining Jaguar's attempts to balance its sales between different markets.[196] The most telling comment on this and the West German market was by Putnam:

> I'm afraid German dealers in the luxury sector have always been massive grey marketers if there's a shortage. I guess it's a weakness on the part of British manufacturers to look at the size of the local German market and always plan a much bigger share than they could actually achieve. And, therefore, they always over-supplied the German market to meet that share expectation. The easiest way for the dealers to get rid of that share is to actually sell it somewhere else, particularly if the market's soft. It's always been a problem.[197]

Unsurprisingly, therefore, Jaguar's actual retail sales in West Germany never rose much above 2,000 cars per year in the 1980s.[198] Jaguar, however, achieved some

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[192] Jaguar Information Pack - XJ6 (XJ40) Launch 1986.
[193] Jaguar Offer for Sale document 1984; Jaguar Annual Reports and Accounts 1984-1988.
[194] *Automotive News*. 26 May 1986.
[195] Roger Putnam Interview. *Appendix* p121.
[196] Prudential-Bache Investment Circular. 13 April 1987.
[197] Roger Putnam Interview. *Appendix* p121.
[198] Jaguar Interim Results Analysts meeting, September 1989 (Author's own contemporaneous notes).

success elsewhere, particularly as a result of the introduction of the entry-level XJ40 2.9-litre model in 1986. Total sales in France reached 1,515 cars in 1988, compared to some 500 cars in 1986. Sales in Italy reached 804 cars in 1988, compared to 264 cars in 1986. Japan also started realising some of its hoped-for potential, with sales of 1,124 cars in 1988, compared with some 400 cars in 1986.[199] But whilst commendable, these advances were insufficient to offset the major downturn in the US market, and given the relatively small markets for luxury cars outside of the US, UK, and West Germany, and Jaguar's inability to make much advance in the German market, it is problematic as to whether Jaguar's stated aim of achieving its "four leg goal" was merely delusion on the part of Jaguar's management.

5.9 Summary and Conclusions

The Egan management failed to recognise and challenge a number of Jaguar's organizational weaknesses that adversely impacted on its marketing effort, particularly in regard to areas such as market information, research, and analysis, and product planning. However, it did succeed in addressing the weaknesses inherent in the UK dealer network Jaguar had inherited from BL. With the assistance of the likes of Pendragon these were successfully challenged and overcome. Offsetting this, however, was the problem of the complacency Jaguar developed as a result of its success in the US and which led to an institutional sclerosis as Jaguar became increasingly dependent on the US market. Consequently, as a result of it not adequately diversifying its business risk by developing other markets sufficiently it could not compensate sufficiently for any downturn in what had become its major market. But such analysis has to be viewed also in regard to the illusion that Jaguar created through its PR effort, and which was a mainstay of its marketing effort, the continued success of its PR creating and sustaining corporate arrogance.

Egan joined Jaguar at a time when one economic downturn was ending, and left as another was beginning. Although Jaguar's sales pattern during this time might be said to be a reflection of, and a response to, the macro-economic cycle, it can be seen from the evidence presented in the preceding analysis that Jaguar's ability to mask its

[199] Jaguar Annual Reports and Accounts, 1986 and 1988.

quality problems, and project an image of a revitalised marketing-led organisation, was the major factor in determining its sales performance during this period. But whilst the illusion created by Jaguar initially enabled it to restore its poor reputation, and achieve record sales volumes, the problems with the XJ40 could not be so masked, at least in regard to its US customers, "word of mouth" being an important element in the maintenance of credibility in the USA.

However, such was the strength of the illusion created, and maintained, by Jaguar that the media hardly questioned that Jaguar's dramatic decline in US sales was due to anything other than a softening of the market and intensified competition, despite the deterioration of Jaguar's rating in the J D Power surveys. Indeed, Jaguar seems to have lost sight of Egan's much-quoted precept, first unveiled in 1982, that, "In marketing and promotion the central aim is satisfying the customer"[200], and instead succeeded in producing a great number of dissatisfied customers. Despite its increasing awareness of the quality problems with the XJ40, Jaguar continued to ship cars which could not match the image of them that had prompted customer purchase.

The portrayal of Jaguar as a marketing-led organisation also was more illusion than reality, Jaguar, and Egan in particular, focusing on PR aspects, with little attention apparently being given to market research and analysis, and market-based product planning and development. Consequently, Jaguar, despite making significant advances in its distribution in a number of markets, remained a production-led company, although its success in countering this image was such that few commentators would later question it.

One particular problem was Jaguar's opportunism which led it to becoming dependent on the US market, and virtually abandoning its once-stated aim of building four legs in terms of markets, as well as allowing its main competitors to overtake it in its home market, traditionally its major market. The result of such opportunism was that Jaguar was widely held to be a "one market, one product" company, since over 50% of its volume sales were obtained in the US, and over 75% of its volume sales were obtained from the Series III/XJ40. It was apparent to many commentators at the time that problems with one or both of these variables could spell disaster for the company, but Jaguar's

[200] John Egan, cited in *Automotive News*. 30 August 1982.

success in creating the illusion of a revitalised, marketing-led, company with a highly successful product, the XJ40, masked the extent of Jaguar's difficulties following the launch of the XJ40.

Although the illusion created by Jaguar may, in the light of twenty-first century concerns about corporate governance and social responsibility, be criticised on ethical grounds, it has to be viewed more with consideration to the common practice of the time. Certainly, it is debateable as to the extent to which Jaguar's PR campaign, resulting in the deliberate masking of its quality problems, paralleled that of other companies in the industry, and this is an issue that merits further study. Indeed, given the problems facing Jaguar in 1980 it is arguable as to whether it would have been able, given the limited resources available to it, to pursue any other marketing strategy. That this strategy eventually was the cause of Jaguar's downfall does not detract from its appropriateness, or its initial success, for as Hamish Orr-Ewing commented:

> The build up of the image of Jaguar by David Boole as a study of rebuilding a company's public image was absolutely masterly, but it had a serious backlash..... everybody had been told that Jaguar was now a completely different business with a new vision of quality control, new participation by the workforce, pride, new product at the forefront of technology etc. That turned out not to be the case and there was some very serious disillusion, particularly in the US where the new "big cat" [the XJ40] actually turned out to be very unreliable. As a study in the promotion of a business without actually altering the product it was unquestionably a very major achievement....It worked, there's no doubt about it. Jaguar was suddenly heralded as this new sparkling business producing different products with an industrial philosophy which was radically altering everything. Motoring journalists and politicians all believed it. It is astonishing to me that it was so successful. I've not known anyone else who's been able to take a company which fundamentally had not been changed at all and put it on the map in a way that I would have thought was impossible.[201]

[201] Hamish Orr-Ewing. Interview with the author, November 2002. *Appendix* p115.

CHAPTER SIX

PRODUCTION AND LABOUR RELATIONS

6.1 Introduction

In Chapter Three of this thesis it was argued that when Egan arrived at Jaguar he appeared to have seen little wrong with the company's corporate culture other than the weaknesses caused by trade union ingrained attitudes. Certainly, as this present chapter reveals, Jaguar in the Egan era suffered from poor manufacturing efficiency, discussed in Section 6.4, which may be seen to have been the product of a number of inter-related factors. These largely resulted from the pervasive and inflexible shop floor institutional structures that had become entrenched in the company during the Lyons' autocracy, and which was reinforced during the BL stewardship, as described in Section 3.7 above, and which included poor manufacturing systems and discipline (discussed in Sub-Section 6.4.2), ineffectual production management (Sub-Section 6.4.3), and detrimental and outmoded work practices (Sub-Section 6.4.4). These, together with Jaguar's antiquated manufacturing plant, discussed in Sub-Section 6.4.1, imposed considerable constraints on Jaguar's ability to increase its volume output, and contributed to increasingly poor product quality. This, as has been discussed in Chapter Five, impacted significantly on the levels of sales achieved by Jaguar, particularly in respect of the XJ40.

Whilst it is undoubtedly true that, as the Fourteenth Report of the House of Commons Expenditure Committee in August 1975 ("1975 Committee") observed, "However efficient the manufacture of vehicles, it is of little use unless the product can be sold"[1], it has to be equally true that it is of little use selling a product that cannot be manufactured efficiently and to a defined quality. This was particularly evident in the case of Jaguar with the poor quality and reliability of the XJ40 being the main factor in the company's declining sales volumes, and the company's demise, in the late 1980s, described in Chapter Five.

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[1] "Motor Vehicle Industry. Fourteenth Report from the Expenditure Committee, with Evidence taken before the Trade and Industry Sub-Committee, and Appendices". (Hereafter Expenditure Committee XIV Report). *Parliamentary Papers*. 1974-75. vol XXV. Para 161. p66.

Most studies of the motor industry in the last fifty years have concentrated on production and industrial relations because of their perceived central roles in the decline of the British motor industry in general, and of BL in particular. But, as Church has shown, scholars are divided on the role and importance of the various factors within the production function, with most studies ascribing the blame for production problems to labour, or management, or both.[2]

In Chapter Seven of this thesis it is argued that the problems with quality and reliability that had always been an issue for Jaguar were exacerbated in the 1980s as a result of deficiencies across many different areas of the Jaguar operation that emanated from the underlying problems of cultural mismatch between the various functions within the company and inadequate corporate resources. Whisler notes that there had been a tendency for British management generally to attribute the 'quality problem' to poor workmanship[3], a view that had been propounded by Ray Nunwick, the Head of the Consumers' Association Car Test Unit, when he told the 1975 Committee that, "this question of defects on new vehicles comes back at the end of the day to the quality of the workmanship, which is associated with the attitude of mind of the man putting the car together".[4] Jaguar, however, adopted a much broader stance on the issue, stating that, "Manufacturing shoulders the greatest responsibility for achieving the required standard of quality in finished motor cars".[5] This view more appropriately indicated that the issue was multi-faceted, "manufacturing" embracing plant, equipment, manufacturing systems, and production planning and management, as well as workmanship.

These factors also impacted on the efficiency of production, an issue that was given great prominence by Egan in his public utterances, improvements here being cited as evidence of Jaguar's revitalisation, and to indicate that the company had moved away from many of the problems that had beset it, and the British motor industry generally, in the past. However, it is of note that Jaguar equated efficiency with productivity, that is, the number of cars produced annually per employee, rather than utilization of installed capacity. Indeed, there is no evidence of Egan ever having referred publicly to the

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[2] Church, Roy. *The rise and decline of the British motor industry.* (Cambridge, 1994). pp120-129.
[3] Whisler, Timothy R. *The British Motor Industry 1945-1994. A Case Study in Industrial Decline.* (Oxford, 1999). p358.
[4] Expenditure Committee XIV Report. Q1715. p632.
[5] Jaguar Annual Report and Accounts 1984. p13.

question of Jaguar's installed capacity. Although Jaguar's productivity continued to be well below that of its main competitors the evidence indicates that the comparison in terms of the utilization of installed capacity would have been far more unfavourable. Beasley, for example, admitted that Jaguar could have operated three shifts, but "we never worked more than two shifts"[6], while Grant revealed that a study by Ford shortly after its takeover of Jaguar indicated that the capacity of Jaguar's existing plants was some three and a half times that of its previous highest attained production level.[7]

However, the ability of Jaguar to achieve significant progress in improving its manufacturing was constrained to a considerable degree by its poor labour relations. In 1975 the Central Policy Review Staff (CPRS) had listed a number of causes of poor labour relations in British industry, the most important appearing to be the following:

(i) A lack of confidence in the prospects for the industry and employment within it.

(ii) A serious lack of trust and faith between the two sides in the industry as the result of a long history of disagreement.

(iii) Poor channels of communication between management and labour.

(iv) Problems that resulted from the replacement of piecework by measured day work, including overmanning, reduced employee motivation, and lower productivity.[8]

As will be shown in Section 6.4 below, Jaguar certainly suffered from each of the last three factors listed, and while it attempted to improve its labour relations through communicating directly with the workforce, this failed to overcome what were undoubtedly deep-rooted problems.

This present chapter examines the nature, and extent, of the problems impacting Jaguar's manufacturing capabilities, and the various constituents which influenced and determined its production efficiency and competence in the period 1980 to

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[6] Mike Beasley. Interview with the author. February 2003. *Appendix* p8.
[7] John Grant. Interview with the author. January 1993. *Appendix* p89.
[8] Central Policy Review Staff (hereafter CPRS). *The Future of the British Car Industry*. (London, 1975) pp101-103.

1990. In particular, and given the arguments in the previous chapter of this thesis that Jaguar remained largely production-led, it explores the extent to which Jaguar had challenged and overcome the ingrained shopfloor attitudes which had resulted in the outmoded working practices and poor labour relations long associated with BL, and which had given the British motor industry such a bad reputation. Also, it examines whether long-term improvements in production efficiency were sacrificed for short-term gains in production flow. Above all, it questions the veracity of Jaguar's claims of being a rejuvenated manufacturing operation, with an enthusiastic workforce, free from strikes and disputes, that could deliver a quality product in good time, and considers the extent to which this was a carefully created illusion that was an essential element in rebuilding and maintaining dealer and customer confidence, and hence sales and profitability.

6.2 Jaguar's Production Facilities

The manufacture of motor cars by the 1970s and 1980s had become a highly complex process, requiring considerable co-ordination of effort, and which consequently offered much scope for increasing the number of quality problems. Collins and Stratton[9] described the car manufacturing process in the late 1980s as comprising six successive stages, as follows:

(i) Pressing steel panels, the shape being imposed upon sheet steel by dies made of high-precision steel.

(ii) Assembling the underframe or floor pan by means of spot welding various panels together. Since the 1980s welding increasingly was undertaken by robots, ensuring greater consistency and freeing workers from the arduous monotony of doing the same job by hand.

(iii) Body-in-white assembly, where the vehicle shell is built up through the spot welding of the body sides, roof, doors, bonnet and tailgate/boot onto the assembled underframe. As with underframe assembly, this is a process that has increasingly been robotized since the 1980s.

[9] Collins, Paul, and Stratton, Michael. *British car factories from 1896: a complete historical, geographical, architectural & technological survey*. (Godmanstone, 1993). pp30-34.

(iv) Painting, which involved a number of processes aimed at protecting the body against corrosion, as well as the application of various coats of paint.

(v) Trim, which in effect is the first stage of final assembly, includes the fitting of wiring looms, glass, sound-deadening materials, and seats.

(vi) Final assembly, involving the fitting of the fuel tank, engine, steering, and rear axle sub-assemblies, and the road wheels.

Before leaving the factory the car would undergo a water test, to check for leaks, and then went for a run on a rolling road, during which it received a complete system check, which might then be followed by a road or track test.

To undertake these tasks, Jaguar operated three separate production plants during the period of Egan's management. These were:

(i) Castle Bromwich, in Birmingham, which comprised the paint shop, and three separate areas for building car bodies: two for the Series III/XJ40, and one for the XJ-S, the plant being responsible for three of the six stages of the manufacture of the Jaguar car – assembly of the underframe, body-in-white assembly, and painting. Jaguar, however, did not manufacture the pressed steel panels from which the car bodies were made, these being produced at, and delivered from, BL's Swindon plant under contract to Jaguar, although the dies from which the panels were formed were supplied, and owned, by Jaguar. The Castle Bromwich plant was brought under Jaguar's management in July 1980, having previously been under the direct control of BL's Specialist Cars Division.

(ii) Radford, in Coventry, which machined and assembled the full range of Jaguar engines, suspension units and axles, as well as a variety of components.

(iii) Browns Lane, in Coventry, whose main activity was vehicle assembly. Collins and Stratton described the plant as having two parallel assembly lines for the saloons, which were "some of the longest production lines to be seen in Britain"[10], and one U-shaped line for the XJ-S, there having been separate lines for saloon and sports

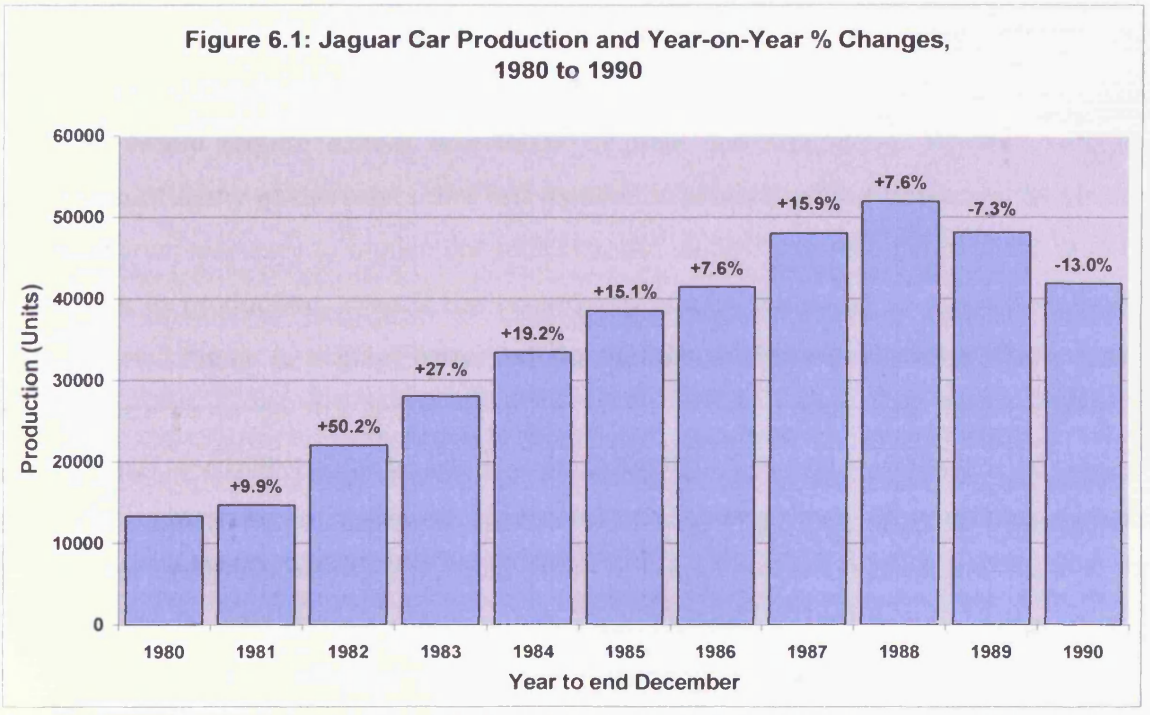
[10] *Ibid.* p221.

cars ever since the introduction of the E-type in 1961. The plant also housed two other manufacturing operations. The "trim shop" manufactured trim for all cars including seat upholstery, door padding, arm rests, fascias and other internal items and the "saw mill" produced high quality internal wooden fittings. In addition, Browns Lane built, in a self-contained area, the Daimler limousines, and there was a pilot plant in which new vehicles under development were manufactured.[11]

6.3 Production Output, 1980 to 1990

As is shown in Figure 6.1, during the period from 1980 to 1988, Jaguar made significant advances in production output as it sought to satisfy the increased demand from customers. From the recent low of 13,360 cars produced in 1980, which had resulted from the collapse in demand described in Section 3.7 above, and from industrial disputes, production increased by nearly 300% by 1988, before falling again as demand once more fell back.

Figure 6.1: Jaguar Car Production and Year-on-Year % Changes, 1980 to 1990



Source: Jaguar Reports and Accounts 1984 to 1990; Jaguar Offer for Sale document, 1984

[11] Jaguar Offer for Sale document. 1984.

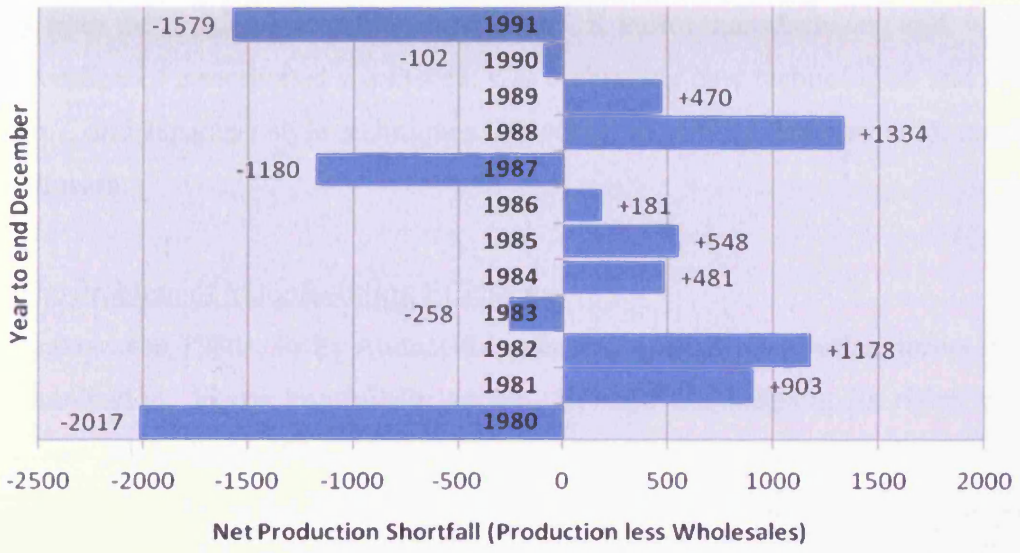
Whilst it may appear fairly obvious, potential demand influences the choice of manufacturing methods, and, therefore, any meaningful discussion of production must be considered in relation to actual and potential demand. Jaguar production was both a response to, and an anticipation of, customer demand, but was governed by a number of other factors that were determined by the actions of both management and workers. However, in the period of rapidly increasing demand in the first half of the 1980s, Jaguar's emphasis was on maximising sales, with increasing the efficiency of the manufacturing operation being a secondary priority.[12] Consequently, as Edwards admitted, problems arose because "we pushed the volume too much"[13], improvements in long term production efficiency being sacrificed for short term gains, with a consequent adverse impact on its cost base, discussed further in Chapter Eight.

For the reasons discussed below, and particularly because of the hand-built nature of much of the Jaguar vehicle, production levels could not necessarily be adjusted rapidly to cater for sudden upturns in demand, although this in itself might not be too great a problem since retail customers would often be prepared to wait for delivery, as was the case with the XJ40 in the UK in the two and a half years following its launch due to demand outstripping supply.[14] But, significant increases in installed production capacity would require capital investment in plant and equipment, together with the resolution of many of the issues that had resulted in production inefficiencies. Moreover, the measures necessary to implement such changes would have resulted in some, at least, disruption to production, even if the consequent greater flexibility in production would have enabled Jaguar to manage better any fluctuations in demand. However, there was no great incentive to do this since for most of the 1980s Jaguar had little problem in matching production output to wholesales. Although this was not always the case in individual years, as is shown in Figure 6.2, the strong level of consumer demand throughout the 1980s resulting in equalisation of output and wholesales. Indeed, over the period 1980 to 1991 the net outcome was a production shortfall to wholesales of only forty-one cars. Thus, although the upturn in demand in 1980 resulted in a production

[12] *Financial Times*, 11 October 1990, *The Times*, 12 February 1991.
[13] John Edwards. Interview with the author, November 2002. *Appendix* p60.
[14] Trevor Finn. Interview with the author, July 2008. *Appendix* p81.

shortfall of 2,017 cars in that year it was compensated for in the following two years, with production exceeding wholesales by 903 cars in 1981 and by 1,178 cars in 1982.

Figure 6.2: Jaguar Production Shortfall (Units), 1980 to 1991.



Source: Jaguar Reports and Accounts 1984 to 1991; Jaguar Offer for Sale document, 1984

It has been commented upon frequently that Jaguar could have sold far more cars than it actually produced in the period 1982 to 1988, but was unable to do so because of other, largely interdependent, factors which constrained, at least in part, the level of output.[15] These, however, did not include installed capacity, since, as has been subsequently revealed, Jaguar's production capacity was far greater than it admitted. In this regard, Grant recorded that shortly after the Ford takeover:

> we did some capacity analysis of what could be done with the existing plants and it was felt that with the existing plants you could actually get 180,000 cars per year out of those existing plants. It might not be the way you would chose to do it but it was possible to do it. Certainly, it was possible to double the production at Browns Lane by a little bit of reprocessing of plant and changing the shift patterns.[16]

[15] For example: *The Times*, 12 February 1991.
[16] John Grant Interview. *Appendix* p89.

Constraining factors included the efficiency of the manufacturing system, work practices, and labour relations. Whilst each of these impacted on production, discussed in the following sections, there is little available evidence to enable any quantification of the limits on production imposed by any of these factors. On the contrary, Jaguar sought to maintain the image of a revitalised business that had moved away from the problems long associated with UK motor manufacturing and, with the full co-operation of a motivated workforce, was embracing new technologies and production systems, and Japanese-style techniques. However, as will be demonstrated, much of this was illusion.

6.4 The Problem of Manufacturing Efficiency

Throughout the 1980s, in its Annual Reports and Accounts and other forms of external communication, Jaguar continually sought, through emphasising its rising production flow and productivity, and improved manufacturing facilities, to project an image of increasing manufacturing efficiency, and improved vehicle quality. This was an image that was accepted largely without question at the time by both journalists and City analysts. However, whilst there may have been some progress made in improving manufacturing efficiency during this period there is little contemporary evidence to directly support this claim, but much evidence to the contrary, particularly towards the end of this period, and following the Ford takeover in 1990. Grant was to complain to the media shortly after the Ford take-over that, "Jaguar's efficiency is not good"[17], but the extent of the problem was revealed by the Massachusetts Institute of Technology (MIT) study undertaken in 1989, and published under the authorship of Womack *et al* the following year.[18] This study, with the data weighted to compensate for different specification of models and for worker absenteeism, showed that European luxury car manufacturers as a group took an average of 57 hours to produce a car, whilst US luxury car manufacturers took an average of 36 hours, and the one Japanese luxury car manufacturer included in the study took only 17 hours.[19] However, within the European

[17] John Grant, quoted in *Automotive News*. 5 March 1990.
[18] Womack, James P, Jones, Daniel T, & Roos, Daniel. *The Machine That Changed The World* (New York, 1990).
[19] *Ibid.* pp88-90.

group the worst manufacturing plant studied took 111 hours to produce a car – a plant that *Automotive News* was to reveal, without any later contradiction, as being Jaguar's.[20] The reasons for Jaguar's poor performance here may be analysed in terms of four inter-related aspects: antiquated plant and machinery; poor manufacturing systems and discipline; ineffectual production management; detrimental and outmoded work practices. Each of these is discussed in the following sub-sections.

6.4.1 Antiquated Plant and Machinery

Jaguar had never built its own factory, and the three manufacturing plants that were owned and operated by Jaguar in the 1980s were all old and suffered from a lack of investment that dated back to the Lyons' autocracy, described in Section 3.4 above. As mentioned in Section 3.7 above, BL had not attempted to compensate for the previous lack of investment in Browns Lane. In 1984, at the time he was Jaguar's Chairman, Orr-Ewing had observed that:

> If you went through its [Jaguar's] main machining operations for machining engine cylinder blocks, cylinder heads, gear boxes, all heavy bits, this was being done literally on rigs, adaptations of standard machine tools in most cases, and many of those extremely old. There was virtually no purposely designed machine tools to do special jobs.[21]

But the Egan management also appears to have spent little on plant, as Scheele noted.[22] Indeed, *Automotive News*, following the Ford bid for Jaguar in 1989, commented that, "Jaguar needs to invest heavily in existing plants" and revealed that, "A previous manufacturing director believed the only way to improve efficiency at the factory was to build a new plant on a green field site. His plan was rejected, and instead Jaguar built a superb research and development centre".[23] Putnam, echoing this sentiment, stated a belief that building a better production plant instead of the Whitley Engineering Centre was certainly one of Jaguar's lost opportunities.[24]

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[20] *Automotive News*. 12 November 1990.
[21] Hamish Orr-Ewing. Interview with the author. November 2002. *Appendix* p115.
[22] Nick Scheele. Interview with the author. May 2007. *Appendix* p129.
[23] *Automotive News*. 6 November 1989.
[24] Roger Putnam. Interview with the author. November 2006. *Appendix* p127.

Operating three separate plants certainly placed Jaguar at a disadvantage in terms of both efficiency and production costs. Castle Bromwich was situated some fifteen miles from Browns Lane, the assembled bodies having to be transported by road to final assembly, thus making the manufacturing process vulnerable to any breakdown of inter-site linkages, increasing the costs, and exposing the painted bodywork to damage. This was even more of a problem when Jaguar chose to outsource some aspects of manufacture. Here, Daniels relates that the manufacture of the XJ-S cabriolet was "tortuous" since shells from the Castle Bromwich plant, minus roof, were transported to Park Sheet Metal in Coventry for the building-up of the vehicle's framework and returned to Castle Bromwich to be put through the paint line, and thence to Browns Lane for final assembly.[25] However, from "final assembly" they were transported, a fourth time, to Aston Martin at Bedworth for installation of the 'targa' panels and the rear hood.

At Castle Bromwich, body assembly was undertaken manually on a flow line until February 1989 when a robotic body-welding line was commissioned. Although, in terms of car manufacture, the biggest single cost was the paint shop and body-in-white body assembly, Jaguar had been slow to install advanced automated systems at Castle Bromwich because, according to Beasley, "we were low volume, and therefore went largely for low volume manufacturing techniques which are manual and less automated".[26] However, whilst appearing impressive, the new robotic system, in Ford's view, was:

> a bit of new-fangled technology that was unfortunately completely misguided because [it] was something that was designed to provide flexibility so you could do a lot of body styles through one fixture, through one piece of kit, and the sad thing was they ended up with only one body style, so they didn't need any flexibility at all. So all the money they spent for flexibility was a waste.[27]

During the summer of 1986 the paint shop at Castle Bromwich was modified to incorporate advanced paint application techniques, but problems here in 1987 resulted in a production shortfall of 1,000 cars, and a consequent adverse impact on profits.[28]

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[25] Daniels, Jeff. *Jaguar. The Engineering Story*. (Yeovil, 2004) p130.
[26] Mike Beasley Interview. *Appendix* p11.
[27] John Grant Interview. *Appendix* p96.
[28] John Edwards. Meeting with City analysts. December 1987. (Author's own contemporaneous notes).

This, of course, was not mentioned in Jaguar's 1987 Report and Accounts.

The Radford plant, as Ford was to discover, apart from being a fairly old factory, built by Daimler in 1908, and enlarged subsequently[29], had ancient machine tools producing some 300-500 different bolts and other turned parts which could have been outsourced.[30]

However, it was Browns Lane that had suffered most from a lack of investment, Grant noting that in regard to capital expenditure in the Egan era:

> There was nothing major. There were bits and pieces. There were some new testing facilities, testing the electrical stuff, but there was no major expenditure at Browns Lane that I can think of. There was obviously expenditure put in to actually launch the XJ40 there but there was no substantial investment in new equipment, or substantial rearrangement of the plant, or anything of that nature.[31]

The antiquated state of this plant had prompted Alex Trotman, Ford Executive Vice President at the time of Ford's takeover of Jaguar, to remark that, "There is nothing wrong with Jaguar that a bulldozer through Browns Lane wouldn't cure"[32], and Bill Hayden, the Ford Vice President who became Jaguar's Chairman following the take-over, to state to one of the tabloid newspapers that Browns Lane was "the worst thing I've seen outside of Gorky".[33]

Although there were problems arising from inadequate manufacturing systems, poor discipline, poor management, and outmoded work practices, discussed in the following sections, the main problem arose from the antiquated final assembly lines which had been in use at Browns Lane for over thirty years, but which were even older. Putnam wryly noted that, "We were actually building the XJ-S and the saloon on the flowline track that Bill Lyons had bought second-hand from the Standard Motor Company in the 1950s!"[34] Scheele commented that there were actually two lines, side-by-side, with "different people doing different operations, so you really had to be able to track the quality control papers back to which line did it. That was next door to

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[29] Whyte, Andrew. *Jaguar. The definitive history of a great British car.* p154.
[30] *Automotive News.* 9 July 1990.
[31] John Grant Interview. *Appendix* p96.
[32] Quoted in *The Sunday Times.* 27 October 1991.
[33] Quoted by Alex Trotman. Interview with the author. February 2003. *Appendix* p139.
[34] Roger Putnam Interview. *Appendix* p123.

impossible".[35] Collins and Stratton[36] noted that the lines were "relatively modestly engineered", and, echoing the findings of the MIT study, that, "the cars spend around two and a half days travelling up and down the building". One particular disadvantage of this assembly track was that it did not permit the "doors off" system which allowed the doors to be trimmed remotely from the line. This was a procedure that gave better access to the car's interior for the fitting of the trim and seats, and significantly reduced the threat of damage to the doors' own trim or bodywork during these stages of assembly.

Jaguar had claimed continually in its Annual Reports and Accounts that it was committed to modernising its plants, but this again appears to be part of the creation and maintenance of the illusion of it being a dynamic company. The reality seems to be that Jaguar's actions here were governed by the constraints resulting from a corporate ethos that could be traced back to the Lyons' autocracy, in regard to preventing disruptions to production, and the minimising of expenditure on manufacturing operations, resulting in little modernisation being achieved at Browns Lane. It is of particular note that Ford, which successfully challenged and overcame Jaguar's cultural constraints, installed a new assembly line in Browns Lane in 1993, at a cost of £8.5million. This figure represented only some 6.5% of Jaguar's peak year capital expenditure of £132million, achieved in 1987, but which had a significant impact on Jaguar's manufacturing efficiency and cost structure. The new state-of-the-art "doors off" assembly track system was made up of a one kilometre long assembly track with overhead mounted cradles that accepted the car bodies from the body store and moved them along to where they met up with the engine and transmission assemblies. Thorley relates that the whole system allowed more space between lines, provided for a much cleaner working environment, was less stressful to the workforce, and permitted the use of 'just-in-time' stock management at the trackside. [37] More importantly it gave an immediate gain in productivity, allowing a maximum of 25 cars an hour to be assembled, compared to the 16 cars per hour under the old system. It took a mere four weeks to install so there was little disruption to production, and, according to Thorley, "provided

[35] Nick Scheele Interview. *Appendix* p129.
[36] Collins and Strachan. *op cit.* p220.
[37] Thorley, Nigel. *Jaguar in Coventry. Building the Legend.* (Derby, 2002). p165.

no problems when first initiated".[38]

The success of the new assembly track revealed the extent of the inefficiency of the previous ones. However, as was pointed out earlier, plant and machinery is only one of four interrelated factors that determined Jaguar's manufacturing performance, as described in the following sub-sections.

6.4.2 Poor Manufacturing Systems and Discipline

Exacerbating the inefficiencies resulting from outmoded plant and equipment were the inadequate systems in operation and the lack of discipline in the manufacturing process. Grant found that there:

> was lousy discipline on the shop floor. It wasn't lack of skill or commitment by the people on the shop floor, it was lack of manufacturing discipline. It was paying lip service to something as simple as statistical process control. People said they were doing it but you'd walk around the factory and you'd find a statistical process control chart that hadn't been filled in for three months. The quality measurement tools were not there, or if they were there they were not being applied. There was just a total lack of discipline throughout every level you looked at. Lousy housekeeping in the plants. The plants were dirty, disorganised, poor materials handling, everything. Every possible thing you could do wrong was done wrong.[39]

Scheele had discovered that, "nearly 90% of all [Jaguar] cars didn't first time go through the water test"[40], and drawing attention to another particular outcome of poor housekeeping, remarked that, "Today if you go into Castle Bromwich [which now undertakes Jaguar final assembly] you'll see that the floor is white, and there are no oil leaks. The floor is white because that means you'll pick up an oil leak before it becomes a problem. The floor in Browns Lane was caked in grime and grease".[41]

Castle Bromwich, which was a plant with a troubled history, presented Jaguar with more obvious problems. Whipp and Clark related that, in 1977, "difficulties" at Castle Bromwich resulted in body shell production for BL's SD1 vehicle being 80%

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[38] *Idem.*
[39] John Grant Interview. *Appendix* pp92-93.
[40] Nick Scheele Interview. *Appendix* p131.
[41] Nick Scheele Interview. *Appendix* p129.

below target.[42] The problems caused by the new paint facility installed by BL at Castle Bromwich in the late 1970s caused considerable, and highly publicised, problems for Jaguar, John Egan recalling that in his early days at Jaguar:

> the single biggest problem we had was our body-in-white quality, and also paint. These were dreadful problems. We were reworking all of the cars when they came from Castle Bromwich to Browns Lane. We had something like six hundred people in something called "The Snakepit" reworking the bodies that came in from Castle Bromwich, and repainting every one. Every single one was repainted fully.[43]

This led to the plant being brought under Jaguar control, but as Mike Beasley related:

> We weren't able to overcome the technical and the discipline problems to run the paintshop in Castle Bromwich for quite a long time....Castle Bromwich was a plant that Michael Edwardes thought should close because it was unmanageable. And I think that in size and scope, and the way it had been managed, it probably was unmanageable.....we set about to try and get control and discipline into the plant, and it took us two or three years to do that.[44]

However, Beasley appeared to have been suffering a degree of self-delusion here for despite Castle Bromwich receiving considerable capital investment in the 1980s, manufacturing discipline remained poor. Ford found that there were:

> finished body panels stacked on the floor, didn't even have pallets for them. Had the bloody stuff coming off the press and the guys just stacked the panels up, nestling them into each other, and sitting on the bloody floor....that gets into hand work to repair the panels, you know, sanding and everything to get the scratches off. Material control was hopeless, quality was hopeless, and the discipline of the line by Ford's standards was appallingly bad.[45]

In the actual assembly process there were considerable inefficiencies resulting from sub-assembly work that was undertaken at Browns Lane, Ford finding, for example, that Jaguar bought wheels, nuts, and washers and fitted them together on the

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[42] Whipp, Richard and Clark, Peter. *Innovation and the Auto Industry.* (London, 1986). p174.
[43] John Egan. Interview with the author. October 2007. *Appendix* p65.
[44] Mike Beasley Interview. *Appendix* p5.
[45] Alex Trotman Interview. *Appendix* p139.

main assembly line.[46] Again, tyres and wheels had to be manually lifted onto the hubs during assembly, which, as Thorley commented, was "a back-breaking job when you did it for a full shift".[47]

Ainsworth, from the perspective of the shop floor, believed that, "an acceptance that right first every time wasn't in the ethos at all", and supported this with the following description of car assembly in Browns Lane in the early 1980s:

> The normal way for a car to be built at Jaguar was: body came in from Castle Bromwich, went down the main assembly lines, went into the rectification line, was invariably stripped down, then it went to road test, which not only road tested it but often stripped it down and rectified it again. Then it went over into the paintshop to repair minor body-in-white defects, then it went onto the refit where often it was re-worked again, then onto the final line where it could be re-worked again.[48]

Whilst it has been fashionable to lay much of the blame for the poor state of Jaguar's plants, Browns Lane in particular, as being due to lack of investment and general neglect by BL, photographs of the Browns Lane main assembly hall taken in the 1960s, such as that included by Thorley[49], show how little working space there was, and the general disorder, with debris scattered on the floor. Given this, it was not surprising that Putnam argued that many of the problems at Browns Lane were "innate, dating back to Bill Lyons' days"[50], and that Ainsworth opined that, "Bill Lyons, who was a real skinflint.... had managed it on a shoestring".[51] However, Egan was only later to acknowledge this publicly when in referring to Lyons' management he complained that, "there was a general meanness in terms of payment to people and in terms of investment....They often skimped on things they really shouldn't have done".[52]

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[46] *Automotive News*. 9 July 1990.
[47] Thorley. *op.cit.* p141.
[48] Bob Ainsworth. Interview with the author. October 2003. *Appendix* p2.
[49] Thorley. *op.cit.* p104.
[50] Roger Putnam Interview. *Appendix* p124.
[51] Bob Ainsworth Interview. *Appendix* p1.
[52] John Egan, quoted in Underwood, John. *The Will to Win. John Egan and Jaguar*. (London, 1989). p207.

6.4.3 Ineffectual Production Management

Although the factory floor managers, including foreman and supervisors, had the responsibility for controlling and co-ordinating the manufacturing process, labour discipline, and quality, their ability to do so was constrained by an organizational structure and *modus operandi* which remained largely unaltered from the time of the Lyons' autocracy and the BL stewardship. The empowerment of the trade unions provided by the piece-rate system, and the long-established management strategy of using labour-intensive techniques, had given the union shop stewards, as Whisler argues[53], control over flow and working practices. In Section 3.6 above it was noted that this, plus the impact of World War Two, resulted in the trade union institutions becoming an entrenched constituent of Jaguar's corporate culture. At Jaguar, such union control continued until after the Ford takeover. Given this, and the inadequate and old production equipment, and the nature of the production system itself, it was hardly surprising that Jaguar's production management, in common with those in other motor manufacturers, firmly embraced what Whisler referred to as "make-do-and-mend" shop-floor procedures in order to maintain production flow.[54]

As was discussed in Section 6.3 above, Jaguar's focus in the early and mid-1980s was on increasing and maintaining volumes, and this, according to Ainsworth, was reflected in the management of the plants themselves. The illusion Jaguar created through its PR effort was that of factory management weaknesses having been successfully challenged through the enthusiastic adoption of Japanese-style techniques[55], and through enhancing the role of the factory supervisors.[56] But, according to Ainsworth, the reality was that little had changed:

> A lot of the change was superficial. The plant ran in exactly the same way: all about numbers.....The whole factory was measured on numbers. How many cars off the final line, how many cars out of the rectification bay, how many cars out of refit, how many cars off the main assembly line, how many trim sets out of the trim shop. If you didn't make your numbers you were in trouble.[57]

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[53] Whisler. *op.cit.* p406.
[54] *Idem.*
[55] Bowen, David. *Shaking the Iron Universe. British Industry in the 1980s.* (London, 1990). pp272-73.
[56] Underwood. *op.cit.* pp85-87.
[57] Bob Ainsworth Interview. *Appendix* pp1,2.

As production increased during the 1980s, and more workers were employed, Jaguar sought to support the expansion of production and strengthen first line management by establishing a further layer of supervisors, with another forty-six supervisors being recruited in 1987.[58] This merely added to the "layers and layers of management"[59] that already existed, and did little to address the fundamental problems. Ainsworth believed that Browns Lane, "had never been managed properly since Bill Lyons....had left.....His successors didn't have the skills to run the plant", and that, "the management system was dysfunctional. Nobody listened to those actually doing the job. In the end people on the shop floor lost interest".[60]

Scheele, agreeing with Ainsworth's view, provided strong support for the argument that inflexible management attitudes inhibited the implementation of more efficient processes, commenting that:

> Previously nobody wanted to hear what the shopfloor was saying. That's how the auto industry ran, and really we were fundamentally flawed because the people who knew most clearly what the problems were were the people who confronted the problems every day. And involving them in the definition of the solution of the problems was not something that came naturally to the auto industry.[61]

Moreover, Scheele argued that the existence of the supervisory level defined the 'them and us' problem, and locked in place a structure that was totally out of date.

Ford abolished three levels of supervisors, who, according to Scheele, "weren't doing that [supervising] anyway: they were firefighting most of the time...because it wasn't just the manufacturing process that was out of control....The process was wrong".[62] As a result the process management and the quality management was devolved to "the guys on the line".

Beasley saw the problem as emanating from management deficiencies in terms of their lack of understanding of modern automotive manufacturing:

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[58] Jaguar Annual Report and Accounts 1987. p11.
[59] Bob Ainsworth Interview. *Appendix* p3.
[60] Bob Ainsworth Interview. *Appendix* pp1,2.
[61] Nick Scheele Interview. *Appendix* p134.
[62] Nick Scheele Interview. *Appendix* p134.

> We were coming from a cottage industry which managed symptoms and not inputs....our knowledge of process management in the sense of controlling inputs and managing the process was not something which was well developed. It was something we were starting to understand by 1987/88.[63]

This was a view with which Scheele agreed, adding that, "The two things that Ford brought to Jaguar were Process and Process Discipline. Ford clearly understood these".[64]

6.4.4 Detrimental and Outmoded Work Practices.

Williams *et al*, acknowledging the existence of bad work practices across British industry, argued that, "the existence of such work practices reflects past union success in defending custom and practice when new technology is introduced" resulting from "a general failure of management control over the labour process".[65] However, such a view fails to appreciate that management, like politics, is the art of the possible, in that it has to balance factors such as corporate survival and the need to service customers against the demands of workers.

Under the Egan management, Jaguar did much to create the illusion of a company that had challenged and overcome trade union intransigence, and consequent bad work practices, that had developed since the end of World War Two in the British motor industry overall. In 1982, Egan was proclaiming that, "We have to manage this company. At one stage the shop stewards ran it, and a bloody bad job they made of it....Now we run this place, and I would rather close it down than ever run the risk of surrendering management to the union".[66] But Ford was to discover that, as with the other three aspects affecting production efficiency, the reality was different from the projected image, Grant observing that in 1990:

> everything that was bad about working practices was in place at Jaguar. Things like working up the line to get your quota finished before the end of the shift so you could knock off early, and that is terrible, it has a terrible impact on quality

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[63] Mike Beasley Interview. *Appendix* p9.
[64] Nick Scheele Interview. *Appendix* p132.
[65] Williams, Karel; Williams, John; Thomas, Dennis. *Why are the British Bad at Manufacturing?* (London, 1983) p43.
[66] John Egan, quoted in *Automotive News*. 17 May 1982.

> and productivity and everything. Total demarcations. There were appalling demarcations. Management had no control over overtime. The overtime rota was determined by the shop stewards. There was a whole list of labour relations practices that were in the Dark Ages.[67]

Ainsworth recounted how the need to reach targets encouraged bad work practices, aided, if not actually instigated, by the supervisors:

> You used to end up in situations where you would systematically find that if you got a really bad car on the final line the gaffers would push it off, push it to one side, push the next five cars back on, push it back onto the track again for the next shift. The next guy picks up the costs, the next guy picks up the fact that they've dropped a car.[68]

The continued tolerance of these, and other, bad work practices in the period from 1980 to 1988, and the failure of the Egan management to challenge the employee and trade union cultures that gave rise to, and supported, such practices suggests that the Egan management was "desperate to make cars at any cost".[69] The problem Egan faced was that initially he viewed his task as ensuring the survival of the company, but he was in no position to directly challenge shopfloor attitudes and bad work practices. Later, in the post-recovery period after 1983, faced with the need to accommodate a growing demand for cars, and to generate the cash required to satisfy continually growing capital expenditure requirements, discussed in the next section, Egan was again in no position to successfully undertake a radical reform of working practices. Indeed, by 1983 it may be argued that he had reinforced employee and trade union ingrained attitudes, and hence appeared to endorse bad working practices, by failing to challenge them.

At the time Egan joined Jaguar the company was also facing financial and market crises. By 1983 the financial and market crises had disappeared, but it would not be until the end of 1990, with the new Ford management, and grave market and financial crises, that Ford, against a background of a workforce afraid of the possibility of Jaguar's new owners actually closing Browns Lane, was able to tackle many of these work practice problems.

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[67] John Grant Interview. *Appendix* p96.
[68] Bob Ainsworth Interview. *Appendix* p2.
[69] *The Times*. 2 January 1989.

6.5 The Issue of Capital Investment

As revealed above, Jaguar's plant and production systems in 1980 were antiquated, with the company's machine tools, for example, being, on average, twenty years old.[70] Whilst a considerable amount of the blame for this state of affairs was attributed by Jaguar after its privatisation to the "terrible under-investment in the 1970s" by BL[71], the problem, in fact, pre-dated BL's stewardship, as mentioned in Sub-Section 6.4.2 above.

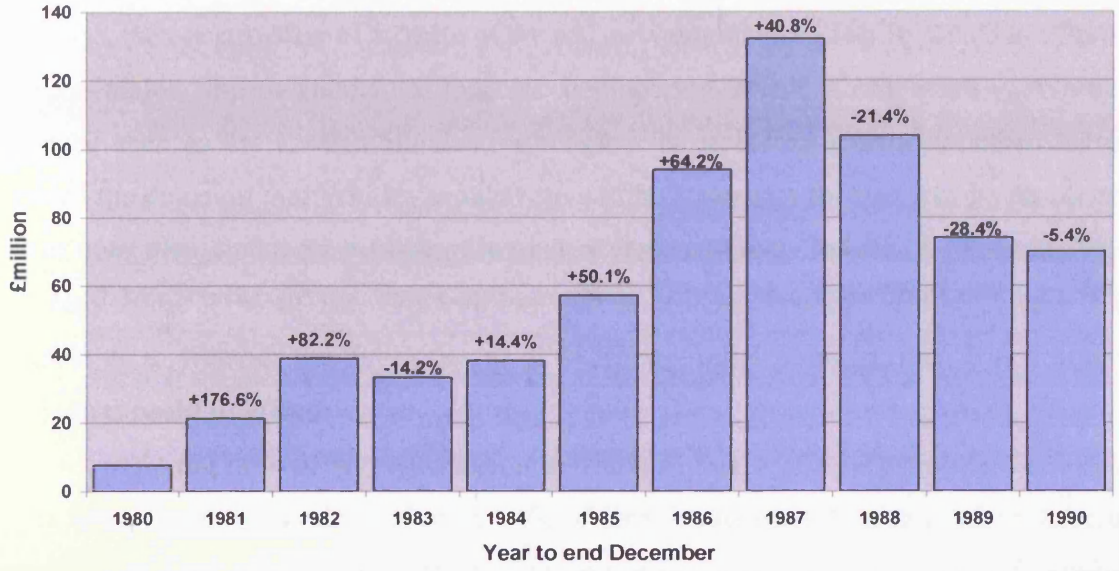
Thus, a considerable amount of investment in new technology and manufacturing systems was required in order to achieve higher productivity, and ensure improved levels of quality and reliability. Whilst, as was made clear in the preceding sections, this was a necessary condition for such improvements, it was not a sufficient condition since there was also a requirement that shopfloor attitudes and structures be transformed. Nonetheless, the Egan management embarked on a sizable capital expenditure programme without seeking to reform shopfloor structures and bad working practices. The consequent progressive increases in capital expenditure, shown in Figure 6.3, amounting to a total of some £670million in the ten years to end December 1989[72], may be regarded as impressive, particularly in relation to the lack of investment in the 1970s. Indeed, in March 1987 Jaguar claimed that it had undertaken capital expenditure totalling £170million in the two and a half years since privatisation, a sum that it hailed as having exceeded the total of the preceding 15 years[73], although this claim overlooks the fact that, in 1982 and 1983, it had financed some £41million of capital expenditure through leasing.[74]

However, as was related in Sub-Section 6.4.1 above, little of this expenditure was directed at improving productivity at Browns Lane, whilst the capital expenditure at Castle Bromwich was mainly directed to the new robotic system which Ford did not view as having been a good use of money, and to installing advanced paint application techniques. Moreover, whilst measures were undertaken at Castle Bromwich to improve

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[70] Underwood. *op.cit.* p95.
[71] John Egan, quoted in *CAR* magazine. October 1987. p109.
[72] Jaguar Annual Report and Accounts 1984-89; Jaguar Offer for Sale document 1984.
[73] Jaguar Analysts Results Briefing. 5 March 1987. (Author's own contemporaneous notes).
[74] Jaguar Offer for Sale document 1984. p7.

Figure 6.3: Capital Expenditure and Year-on-Year % Changes, 1980 to 1990



Source: Jaguar Offer for Sale document, 1984; Annual Reports and Accounts 1984 to 1990.

productivity and quality, similar capital expenditure at Browns Lane had to await Ford ownership. Indeed, measures that would have significantly improved productivity at Browns Lane, such as a new final assembly line, were forgone in favour of the new Engineering Centre at Whitley, opened in May 1988. This site accommodated all Jaguar's product engineering functions, and included facilities for vehicle design, advanced engineering, vehicle and component development, vehicle safety and compliance, and engine testing, as well as a new styling centre. Whilst Jaguar's engineering department had previously been "a relatively miniscule operation without proper facilities"[75], and undoubtedly was in need of better and more modern facilities, having previously occupied, according to Putnam, "sheds at the back of Browns Lane"[76], Whitley appeared to be very much a prestige project, causing Finn to comment that, "Whitley, relative to the size of the company, was too large".[77] Unsurprisingly, it was a

[75] Nick Scheele Interview. *Appendix* p129.
[76] Roger Putnam Interview. *Appendix* p123.
[77] Trevor Finn Interview. *Appendix* p79.

development that received considerable media coverage, being hailed as bringing Jaguar, "to the forefront of the technology needed to develop and engineer tomorrow's cars".[78] Even so, given that the major problem with the engineering department was that of inflexibility regarding its *modus operandi*, which Egan appeared to have failed to recognise, the construction of a "state of the art" new engineering facility could not *per se* produce major improvements in Jaguar's engineering effort. Consequently, Whitley might be seen as yet another illusion, although it is problematic as to whether Jaguar suffered the delusion that Whitley would prove to be a panacea for many of its problems. It is of note, also, that the new assembly track at Browns Lane, installed by Ford in 1993, cost only some 11% of the £76.5million that it cost to develop Whitley[79], and it is arguable as to whether the development of Whitley, at that point in time, was a luxury that Jaguar could ill afford.

At the time of its privatisation in 1984, Jaguar was forecasting that it would invest annually the equivalent of some 10% of its sales revenue[80], an amount that seems to have been determined by it matching the proportion spent by its German competitors and implying that this would represent new heights for Jaguar capital expenditure.[81] But, as can be seen from Figure 6.4, this was a figure that had been already exceeded in both 1981 and 1982 under BL ownership, and although capital expenditure after privatisation was increased gradually to Jaguar's stated target of 10% of turnover, it was a target that was only barely met in 1987 if the £32million costs of the Whitley Engineering Centre in that year are excluded. Without Whitley, capital expenditure in 1987 amounted to 9.9% of sales revenues, and 9.0% in 1986, detailed further in Sub-Section 8.3.6 below.

Increased capital expenditure, of course, carried with it the burden of increased depreciation charges which would be profit-diluting unless the investments concerned could generate returns that were at least as great as the resultant depreciation charges. As revealed in Sub-Section 8.3.6 below, the rapidly increasing depreciation charge began to impact adversely on Jaguar's overall profits after 1986. Even so, it was not until mid-1988 that its impact on profits that that were declining anyway appeared to

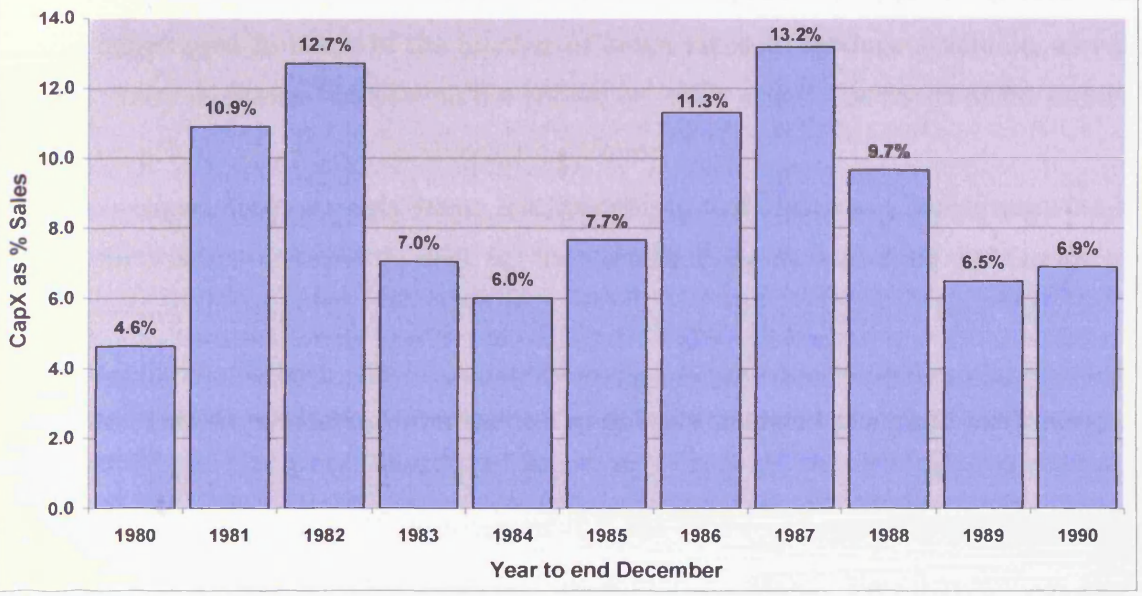
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[78] *Financial Times*. 24 May 1988.
[79] Jaguar Reports and Accounts. 1984-88.
[80] Bhaskar, K N et al. *Jaguar: An Investor's Guide*. UEA Motor Industry Research Unit, 1984. p19.
[81] Underwood. *op.cit.* p95.

have been appreciated by Jaguar, and this, together with Jaguar's deteriorating cash flow position, led Egan to announce that Jaguar's capital expenditure plans for 1988 had been "trimmed from the £140m forecast in March to £120m".[82] In the event, it was trimmed further, and emerged finally at £103.8million. Although in early 1989 Jaguar was forecasting annual capital expenditures of between £100million and £110million[83], the downturn in the company's fortunes in that year forced a further reduction, to some £74million.

Of course, given the impact of increased levels of depreciation on Jaguar's profits, it is arguable as to whether Jaguar had been deluding itself that it could not only fund ever- increasing levels of capital expenditure out of its own cash flows, without

Figure 6.4: Capital Expenditure as % of Sales Revenues, 1980 to 1990



Source: Jaguar Annual Reports and Accounts 1984 to 1990; Jaguar Offer for Sale Document 1984.

the need for a Rights Issue, as discussed in Sub-Section 4.3.2 above, but also bear the consequent dilution on its Profit and Loss account. As was pointed out in Chapter Four,

[82] *Automotive News.* 13 June 1988.
[83] Jaguar Analysts Results Briefing. 16 March 1989 (Author's own contemporaneous notes).

prior to 1986 and the problems caused by the XJ40, the Egan management appeared to be deluding itself over a range of issues. Despite the enforced cutbacks in capital expenditure in 1988, Egan was adamant in the following year that the company could fund the heavy future capital requirements from its own resources.[84] But there is little doubt that Jaguar itself, particularly given the downturn in profits from 1989 onwards, could not even have began to fund from its own resources the £1billion that Ford, by 1994, expected to have invested in the company in the seven years to 1996.[85]

6.6 Labour Productivity

There are a number of ways in which production efficiency may be quantified, the method utilised normally being determined by the means of production. For example, in activities where production is capital intensive, efficiency is likely to be measured in relation to the average level of capital employed, whilst in labour-intensive industries the measure is normally related to numbers employed. In motor manufacturing, efficiency might be measured in terms of the number of hours taken to produce a vehicle, as with the MIT study mentioned in Section 6.4 above, or, more usually, in terms of the number of vehicles produced per year per average employee.

Egan, from an early stage, had recognised that Jaguar suffered from what he termed the "British disease"[86]; that is, low productivity as measured by output per employee, and resulting from overmanning. This was a feature that had been inherent in the British motor industry generally, according to the 1975 Committee[87], and which the Committee held as emanating from the use of old and outdated plant and machinery, or from "the employment of more men than are needed to do the job with existing equipment". The CPRS in 1975 observed that the move to measured day work from piecework was a major factor in overmanning as in many plants, "the changes took place before soundly based manning levels had been agreed".[88] Also, the CPRS reported that the change to measured day work was considered to have reduced productivity substantially as a result of workers now lacking any positive incentive to keep the

[84] Sir John Egan. Evidence to the Trade and Industry Committee, 8 November 1989. p6.
[85] *Financial Times*. 28 September 1994.
[86] *Automotive News*. 30 August 1982.
[87] Expenditure Committee XIV Report. Paras 105,106. p42.
[88] CPRS. p102.

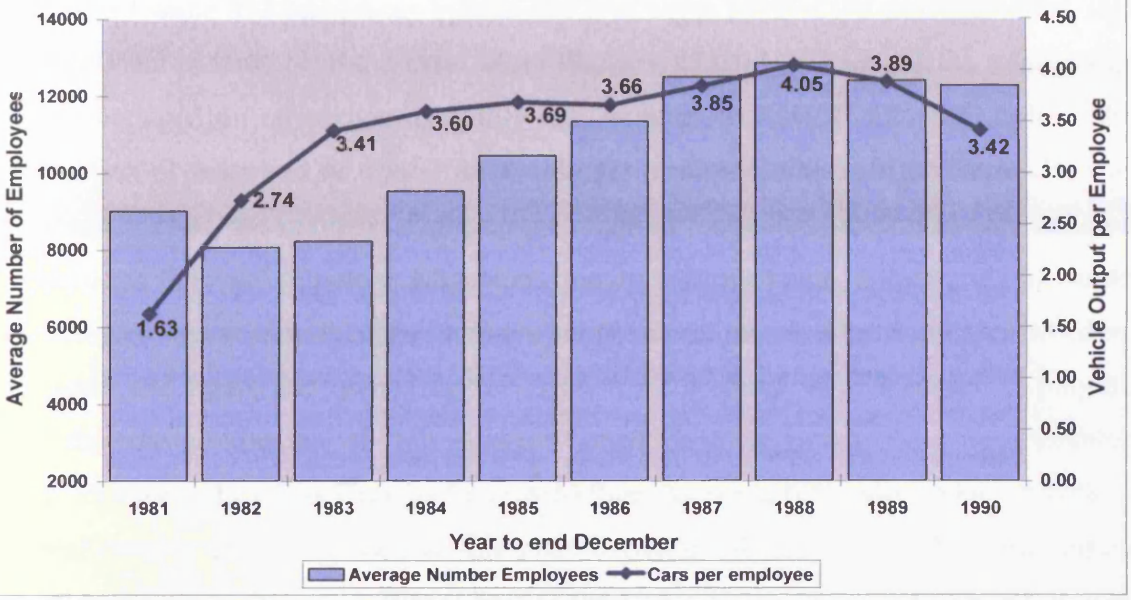
assembly lines working, and because of the large increase in the number of supervisors. As noted in Sub-Section 6.4.3 above, Jaguar introduced a further layer of supervisors in 1987. Whisler relates that poor work organization is another contributory factor to low productivity[89], and within this might be included the aspects previously discussed in Sub-Sections 6.4.2 to 6.4.4.

Overmanning became only too apparent at Jaguar in 1979 and 1980 as a result of the fall in output, resulting from the marked downturn in demand, and the disruption caused by industrial disputes, with labour productivity falling to just 1.4 cars per employee in 1980. However, within two years labour productivity had nearly doubled, to 2.74 cars in 1982, as shown in Figure 6.5, and given the continual emphasis placed by Egan on the need to improve Jaguar's productivity to the 6.0 vehicles per annum achieved by Mercedes[90], it is pertinent to examine the issues affecting Jaguar's manufacturing efficiency as measured by its productivity levels in the Egan era, and the extent to which changes in productivity levels reflected fundamental improvements in Jaguar's manufacturing effort.

Labour productivity is determined by one or more of a number of factors, the most obvious being those of the volume of production achieved and the numbers employed, since doubling the level of production with the same number of employees doubles labour productivity, other factors being held constant. But there are other determinants of productivity, including the amount of manufacturing that is contracted out to third parties, the availability of bought-in components, the extent to which a production process is labour-intensive, or capital-intensive, the efficiency of the machinery and tools used in the production process, and the efficiency of labour itself, and its organisation, given the production processes and disciplines involved. From the earlier discussion, it is apparent that inflexible employee and trade union attitudes were a constraint on the more efficient use of labour, and the employment of more efficient production systems, and hence inhibited increases in productivity. Such ingrained attitudes could result in industrial action, with a consequent loss in output, and lower productivity, as noted above and further discussed in Section 6.7 below. Also, as shown

[89] Whisler. *op.cit.* p182.
[90] *Automotive News*. 30 August 1982; 6 October 1986; *Financial Times*, 19 April 1988.

Figure 6.5: Average Number of Employees and Vehicle Output per Employee, 1981 to 1990.



Source: Jaguar Annual Reports and Accounts 1984 to 1990; Offer for Sale document 1984
Note: The slight fall in productivity in 1986 undoubtedly resulted from temporary disruption to production caused by the introduction of the XJ40.

in Sub-Section 6.4.1 above, Jaguar spent little on modernising its manufacturing facilities, and so the substitution of capital for labour, whereby a new machine might replace the work undertaken by, say, two employees, can be dismissed as a factor in the rise in productivity at Jaguar in 1982 compared to 1980. Thus, it is fairly apparent that the 96% increase in productivity in this period was largely due to the 65% increase in production, and the 15.5% reduction in the average numbers employed in 1982 compared to 1980.

During 1981 and 1982, Jaguar's total numbers employed were reduced significantly, by nearly 20%, from 9,725 at the end of 1980 to 7,832 at the end of 1982[91], although taking the average employee numbers for both years, the reduction was 15.5%. Whilst the details of how this was achieved have not been available, it is apparent that Jaguar had a number of options available to it to reduce manning to a level more in line with the lower production requirements resulting from the fall in demand in 1979 and 1980. The most obvious course of action might have been for Jaguar to operate only one

[91] Jaguar Offer for Sale Document, 1984. p10.

of its two Series III lines at Browns Lane, thus reducing by half the number of Series III assembly line workers, although given the total Browns Lane manufacturing headcount reduction of some 892 employees by end-1982, or some 25% of the end-1980 total, this does not seem to have been the case. More likely is that Jaguar reduced the numbers of workers engaged on other, non assembly line, production-related activities such as the construction of seats and of doors. As Weidinger observed, much of the Series III was hand-built.[92] Thus, the number of employees required for such tasks would vary in some proportion to the level of output. Moreover, quality improvements in the Series III would have allowed Jaguar to reduce the numbers employed on rectification work, described by Ainsworth and Egan, and quoted in Sub-Section 6.4.2 above. In this respect it may be noted that the elimination of "the Snakepit" mentioned by Egan would have enabled Jaguar to have reduced its Browns Lane workforce by some 600 employees, or 67% of the total number of redundancies at this plant between 1980 and end 1982. One certain aspect, however, is that a significant part of the headcount reduction in this period was achieved through cutting the numbers of support staff, with administration staff being reduced by 352, or 34% of their 1980 total, and overseas sales and service staff by 201, or 39% of their 1980 total.[93]

With the further 27% increase in output in 1983, productivity improved by 24.5%, but this was accompanied by a 9.8% rise in employee numbers, possibly reflecting the labour intensive nature of craft-based operations such as seat manufacturing and door construction, but certainly also the result of a shopfloor culture which, in seeking to maintain established work practices, and demarcations, underlay worker resistance to management's demands for increased productivity. This meant that expansion of production could be achieved only with greater labour inputs, as had long been the case in the British motor industry.[94] Allowance had also to be made for absenteeism, which Trotman opined "was Hellish" and "sick leave was way out of what we [Ford] would consider normal".[95] Undoubtedly, as is apparent from the improvements implemented by Ford, discussed below, it is these factors that resulted in the largely

[92] Jake Weidinger. Interview with the author. 19 May 2008. *Appendix* p147.
[93] Jaguar Offer for Sale Document, 1984. p10.
[94] CPRS. p102.
[95] Alex Trotman Interview. *Appendix* p141.

unchanging, or slowly increasing, levels of productivity in the period 1984 to 1988, as shown in Figure 6.5, despite the 85% increase in annual vehicle output in this period. Whilst commendable, the productivity levels achieved were far short of Egan's oft-stated target of 6.0 vehicles per employee, due in large measure to the continual increase in employee numbers in the period 1983 to 1988. Thereafter, productivity again declined due to Jaguar's failure to reduce employee numbers in line with the fall in production in 1989 and 1990. In 1991 Ford reduced the workforce further, to some 8,000 employees at a cost of £42.5million, giving an average employee number for the year of some 10,050, but with output falling by 22,967 vehicles, or some 55% of the 1990 total, productivity was reduced to 1.87 vehicles.[96]

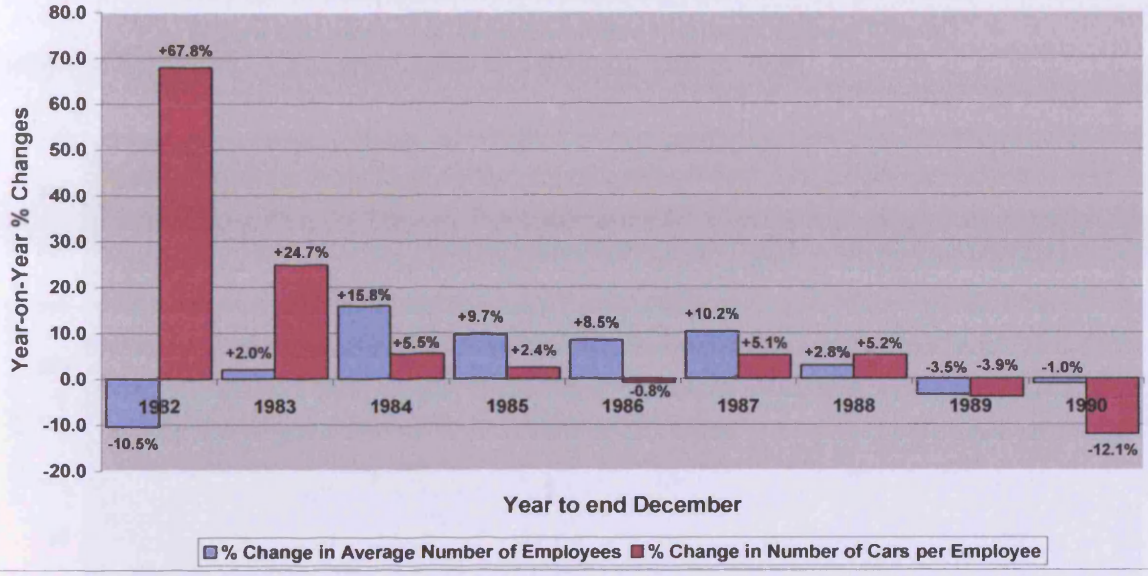
Jaguar's stated policy had been that "any increase in the total number of employees brings improvements in productivity"[97], although this was a statement that was not repeated after 1985 for reasons that are obvious from Figure 6.6. This shows that after privatisation there was only one year, 1988, in which the proportional increase in the number of cars produced exceeded the proportional increase in the number of employees.

As can be seen from Figure 6.7, Jaguar suffered the problem of a continual rise in total employee costs throughout the period 1983 to 1990, even in 1989 and 1990 when vehicle output reduced, and employee numbers were cut (by some 500 people in the first half 1989). In every year in this period, with the exception of 1983 when wholesales experienced a sharp recovery, the percentage increase in total employee costs was greater than that for vehicle production, thus demonstrating Jaguar's lack of control over employee costs, and its generosity regarding pay awards. This is discussed further in Sub-Section 8.3.1 below.

It is also relevant at this point to note the relationship between capital expenditure and labour costs. Given that a proportion of this capital expenditure was aimed directly at modernising plant and systems it could be expected, as mentioned earlier, that this would result in the substitution of capital for labour. However, this does not appear to have been the case. As is shown in Figure 6.8, employee numbers increased every year from 1983 to 1988, dropping only slightly in 1989 and 1990, and labour costs

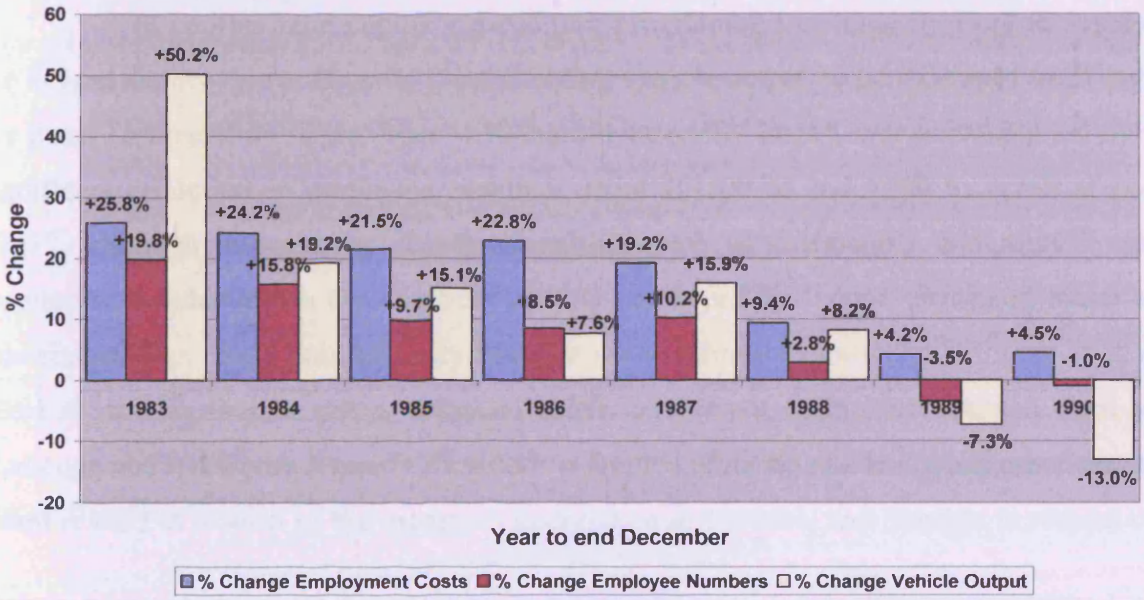
[96] Jaguar Report and Accounts 1991; *Financial Times* 28 September 1994.
[97] Jaguar Annual Report and Accounts 1984 p12; 1985 p8.

Figure 6.6: Year-on-Year % Change in Average Number of Employees and Year-on-Year % Change in Number of Cars Produced per Employee, 1982 to 1990



Source: Jaguar Annual Reports and Accounts 1984 to 1990; Jaguar Offer for Sale document 1984

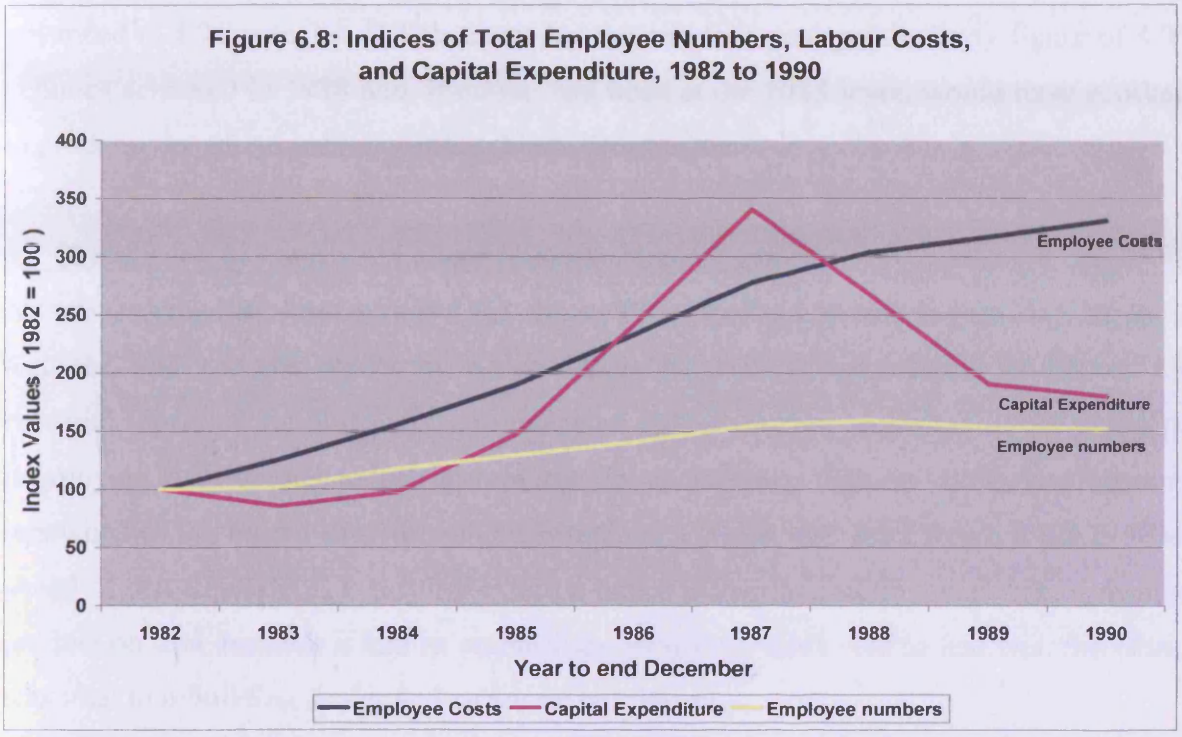
Figure 6.7: Year-on-Year % Changes in Employee Costs, Employee Numbers, and Vehicle Output, 1983 to 1990



Source: Jaguar Annual Reports and Accounts 1984 to 1990; Jaguar Offer for Sale document 1984

increased continually, and disproportionately, from 1983 to 1990, despite the significant increases in capital expenditure up to 1987.

Figure 6.8: Indices of Total Employee Numbers, Labour Costs, and Capital Expenditure, 1982 to 1990



Source: Jaguar Annual Reports and Accounts 1984 to 1990; Jaguar Offer for Sale document 1984

In contrast, the capital expenditure programme instituted by Ford at Jaguar, the new assembly line at Browns Lane enabling vehicle output to be increased to 25 cars per hour, compared to 16 per hour with the old assembly lines[98], was accompanied by a significant reduction in employee numbers, from 12,100 at end 1990 to 6,750 at end 1993[99], although outsourcing of sub-assemblies such as dashboards and seats[100] also resulted in a reduction in the numbers directly employed by Jaguar. However, much of this change was made possible only because the synchronous exogenous forces of new decision maker, market crisis, financial crisis, and threat of closure enabled Ford to challenge and overcome Jaguar's shopfloor ingrained attitudes and bad work practices, as Grant related in respect of the measures undertaken in 1990/91, and Scheele in respect of

[98] Thorley. *op.cit.* p165
[99] *Financial Times*. 28 September 1994.
[100] Thorley. *op.cit.* pp176, 178.

the more significant measures implemented in 1992/93.[101] Consequently, despite a further 10% fall in output to 20,601 vehicles in 1992, productivity made some recovery, to 2.77 vehicles, but in 1993, with the 41% increase in output to 29,077 vehicles, productivity advanced to 4.26 vehicles.[102] This exceeded the previous peak productivity figure of 4.05 vehicles achieved in 1988 and, if output had been at the 1988 level, would have resulted in productivity of 7.6 vehicles, other things being equal.

6.7 The Illusion of Improved Labour Relations under Egan

As was revealed in Sub-Section 4.3.3 above, PR played a key role in restoring Jaguar's fortunes, and was the means by which Jaguar masked its considerable problems. An essential aspect of the illusion of a rejuvenated Jaguar was the projection of the image of it enjoying harmonious industrial relations in an industry that, by 1980, had become renowned for its record of strikes and disruptions, as Egan was quick to point out in 1984 ahead of privatisation.[103] Restoring external belief in Jaguar's ability to deliver a quality product on time because it had an enthusiastic workforce dedicated to that end, therefore, was vital to rebuilding dealer and customer confidence.

The projection of greatly improved industrial relations at Jaguar was the more believable because it demonstrated the success of the Thatcher government's aims in respect of changing UK industrial relations. Commencing in 1980, the Thatcher government had set out to radically reform industrial relations law, aiming especially to curb the power of the trades unions which was often seen as acting as a brake on productivity and investment.[104] "Restrictive practices" by means of which unions sought to influence manning levels, the pace of production, and the introduction of new equipment and methods of working were seen as being particular problems, especially since they were backed up with the threat of industrial action such as strikes, working-to-rule, and overtime bans.

The programme of reform instituted by the government during the 1980s was accomplished by means of a series of Employment Acts (in 1980, 1982, 1988, and 1989),

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[101] John Grant Interview. *Appendix* pp 96-97; Nick Scheele Interview. *Appendix* p133

[102] Jaguar Report and Accounts 1991, 1992, 1993; *Financial Times.* 28 September 1994.

[103] Blackrod Limited. *Jaguar 'Risk and Opportunity'*. (London, 1984) [VHS Video]

[104] Shackleton, J. R. "Industrial Relations Reform in Britain since 1979" in *Journal of Labor Research*, Volume XIX, Number 3 (Summer 1998). p582.

the Trade Union Act in 1984, and the Wages Act 1986. Each dealt with specific areas of industrial relations, the 1984 act, for example, introducing secret ballots of union members before industrial action could be implemented. Shackleton sees the reforms as covering several broad areas. First, they narrowed the legitimate action that could be undertaken by a trade union in pursuit of a dispute, by requiring, for example, requiring ballots prior to strikes. This requirement was gradually tightened over time to make it increasingly difficult for strike action to be approved. Second, unions were made financially responsible for civil wrongs committed by their members, a measure aimed at reducing the incidence of unofficial industrial action. Third, government support for collective bargaining was removed. Fourth, the scope of the closed shop (where only union members could be employed) was gradually narrowed until its existence was abolished in 1990. Finally, unions' own organization and procedures were reformed, measures here including the requirement to hold secret ballots to elect officials, and protection against expulsion from unions for non-support of strikes. [105] During the 1980s the UK was also required by the European Community to extend a variety of individual employment rights (for example, extended coverage of sex discrimination law), much of which was included in employment legislation.

This gradualist approach to reform, and the defeat of the miner's strike in 1984, proved to be politically successful, and succeeded in its main aims, listed in the previous paragraph. Here, Shackleton notes that, "Whereas in 1979 unions organized over half the work force, bargained on behalf of many more, and occupied a powerful political position, by the mid-1990s their membership had fallen by 40 percent and their political influence had dwindled to insignificance".[106] Evans *et al* reported that the number of strikes declined substantially during the 1980s, reaching its lowest level for some 50 years. In 1979 there were 2125 strikes; by 1990 the figure had fallen to 630, Evans *et al* opined that, "These figures point to a significant change in the conduct of British industrial relations, arguably reflecting the emergence of a new set of attitudes among union leaders and members".[107] As Evans et al further opined, the legislation was

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[105] *Ibid.* pp587-588.
[106] *Ibid.* p581.
[107] Evans, Steve, Ewing, Keith, and Nolan, Peter. "Industrial Relations and the British Economy in the 1990s: Mrs Thatcher's Legacy" in *Journal of Management Studies*, Volume 29, Number 5 (September

clearly aimed also at increasing managerial control of industrial relations[108], but, as discussed below, this was not the result at Jaguar. Indeed, there is no evidence of the Thatcherist legislation having any impact at Jaguar, it being apparent that the pattern of industrial relations at the company during the Egan era was the exact opposite of that in the economy as a whole, with a considerable worsening of industrial relations being experienced at Jaguar in the second half of the decade. The Thatcherist ideals in regard to industrial relations would not be reflected at Jaguar until Ford acquired the company.

From 1980 to privatisation, Jaguar suffered no industrial disputes.[109] Egan continually sang the praises of the enthusiasm of the Jaguar workforce[110] and, in 1984, ahead of privatisation, was claiming that Jaguar's management and the workforce were "a cohesive force".[111] But although some progress had been made in industrial relations in the period following the strike in 1980 at the time Egan joined Jaguar, the absence of industrial disputes during 1980 to 1984 was due to a number of factors. Certainly, one reason appeared to be the increased confidence of the workforce as Jaguar's sales increased, but also of note was Egan's unwillingness, in the light of the need for higher output, or inability, as noted earlier, to attempt to directly confront shopfloor or trade union attitudes, and hence resolve the problems of detrimental work practices and deficient production management.

Edwardes had criticised the Jaguar workforce for considering themselves to be elite, something he saw as constituting an enormous attitude problem[112], but others saw the more positive side of it. Putnam, for example, recounted that:

> the workforce were absolutely brilliant – the number of visitors I took round [the factories] couldn't believe how friendly the workforce was, how keen the workers were to talk to outsiders – not run forklift trucks at them as they would in Longbridge.[113]

1992). p576.
[108] *Ibid.* p577.
[109] John Edwards Interview. *Appendix* p58.
[110] *Automotive News.* 17 May 1982, 30 August 1982
[111] Blackrod Limited. *Jaguar 'Risk and Opportunity'*
[112] Edwardes, Michael. *Back from the Brink. An Apocalyptic Experience* (London, 1983). p175
[113] Roger Putnam Interview. *Appendix* p123.

Grant agreed that Jaguar "was a very friendly company", but pointed to some of the deep-rooted problems, particularly resulting from an inflexible management culture, relating that:

> There was a great spirit about the company but it was all being channelled in the wrong direction. There was a great desire actually for the company to perform better but the people on the shopfloor were very frustrated because they were not being given the tools to do the job they wanted to do....There was a lack of trust, there was a lack of belief in the management because they wouldn't listen, they wouldn't respond when people complained. When they complained about legitimate concerns they had they didn't get any reaction; this prejudices the view about the management. I think that was rampant.[114]

Whilst Egan recognised the problem of the lack of trust in the management, he failed to understand the basic cause, and the need, therefore, to introduce reform within all functions and at all levels throughout the company. A major difficulty here, according to Edwards, was that Egan "thought that everyone at Jaguar should love him because he'd done such wonderful things for Jaguar, and he couldn't understand the blue-collar mentality".[115] A further problem, pointed out in Sub-Section 4.3.1.3 above, was that Egan's personal charisma and leadership qualities failed to have much impact on the workforce, and such rebuffs must have resulted in his ego being constantly dented. Undoubtedly, Egan failed to appreciate that the ingrained shopfloor attitudes could not be modified by means of personality alone, and his failure to do so did not make for a harmonious relationship with the workforce. Ainsworth recalled that on his arrival at the strike-bound Jaguar Egan called a meeting with the shop stewards:

> Egan told us how he thought he'd turn Jaguar into a first class company, paying the top wages etc, and ended by banging the table and asking 'Are you with me?' The shop stewards were stunned. The senior shop steward said 'You'll have to forgive us if you haven't got the response you want, but we've been here a long time and we've heard it all before'. Egan literally withered before the onslaught.[116]

However, Egan later made no attempt to conceal his animosity towards the trade unions, continually attacking them in the media with such statements as, "Since the

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[114] John Grant Interview. *Appendix* pp97-98.
[115] John Edwards Interview. *Appendix* p61.
[116] Bob Ainsworth Interview. *Appendix* p1

war the workforce has been exploited by the political objectives of the trades unions for purely political ends. They certainly haven't done the working man any good".[117] Here, Egan demonstrated his lack of understanding that the long history of (often justified) mistrust in management by the workers had reinforced the influence of the trade unions[118], and had resulted, as noted earlier, in trade union structures becoming an integral part of Jaguar's corporate ethos. This was not something that could be reversed through appealing directly to the workforce through a communications programme alone, as shown in the next section, but required other measures that were not undertaken until Ford acquired Jaguar.

From the resolution of the 1980 strike through to 1988, Jaguar carefully maintained the illusion of there being few, if any, industrial relations problems at Jaguar, and although it was difficult to conceal the strike over pay in 1984 shortly after privatisation, resulting in the loss of production of 1,000 cars[119], little attention was accorded it in the media. In the following years Jaguar's public reporting of the effect of industrial disputes was carefully worded to maintain the illusion of good labour relations, leading to such press comments as, "Considering the legacy he inherited, Egan has handled Jaguar's industrial relations with consummate skill".[120] In 1984, apart from the strike over pay, Jaguar claimed that there were no other "major disputes"[121], and that in 1985 there were "no significant industrial disputes".[122] Following this, Jaguar claimed that in 1986 only 0.1% of total working hours were lost through industrial disputes[123], a figure that fell to 0.046% in 1987[124], but then rose again to 0.3% in 1988, a year in which "relatively little industrial unrest occurred".[125] The problem here is that of understanding what constitutes a "major dispute" or "significant dispute", for without knowing the actual number of "total working hours" involved, the impact of industrial disputes on the company is somewhat problematic, particularly since the total number of working hours

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[117] John Egan quoted in *Automotive News.* 17 May 1982.
[118] Whisler. *op.cit.* pp210-218. Underwood. *op.cit.* p85.
[119] Jaguar Annual Report and Accounts 1984. p11.
[120] *Financial Weekly.* 27 November 1986.
[121] Jaguar Annual Report and Accounts 1984. p11.
[122] Jaguar Annual Report and Accounts 1985. p9.
[123] Jaguar Annual Report and Accounts 1986. p10.
[124] Jaguar Annual Report and Accounts 1987. p12.
[125] Jaguar Annual Report and Accounts 1988. p12.

themselves would vary from year to year according to the numbers employed. Indeed, it is of particular note that, after 1984, Jaguar carefully avoided any reference to lost production in terms of numbers of cars.

However, the industrial relations situation at this time, in reality, was far different from the illusion carefully nurtured by Jaguar, and by 1988 Jaguar could no longer conceal the extent of its industrial relations problems from a media that was becoming increasingly sceptical of the Jaguar myth, and which was to report on "an atmosphere of simmering resentment on the shopfloor that has manifested itself in sporadic walk-outs over the last twelve months".[126] When Ford took control of Jaguar it discovered, in marked contrast to the illusion that had been created, that Jaguar's labour relations "were appalling.....the strike record was appalling...there were very few days that were strike-free".[127] The reason why Egan had been unable to successfully challenge the entrenched shopfloor institutions was, in Grant's view, because:

> Jaguar having been privatised never had the muscle to stand up to the unions....because at the time they needed the volume, their sales were going up and they couldn't jeopardise their production.....Later on, they were trying to introduce the new car and they couldn't jeopardise the new launch so they had to roll over there also. Gradually, Jaguar had gone backwards and backwards and backwards. Every time they were tested [by the unions] they gave way. They were being tested all the time, giving way all the time. So, by the end of 1989 labour relations were at the stage that basically reflected the worst days of the 1960s.[128]

Beasley admitted that during the 1980s he spent "something like half to three-quarters of my time negotiating with trade unions as a manufacturing guy".[129] As a yardstick here, the CPRS reported that, "plant managers in the British car industry claim to spend almost half their time dealing with labour disputes while their counterparts in Belgium and Germany spend 10-15 per cent of their time on such problems".[130]

But the Ford success in challenging and overcoming ingrained shopfloor and bad work practices at Jaguar had a dramatic impact, for as Grant recounted:

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[126] *Financial Times.* 9 January 1989.
[127] John Grant Interview. *Appendix* p96.
[128] John Grant Interview. *Appendix* p96.
[129] Mike Beasley Interview. *Appendix* p5.
[130] CPRS. p46.

> The strike record in the previous twelve months having been single figures of days that were free of disruption, in the next twelve months there was no production lost due to disruption at all. It absolutely transformed the labour relations, underpinned of course by the fact that it was a pretty gloomy time when people were getting made redundant and all the rest of it, but the labour relations had been absolutely transformed by those actions.[131]

6.8 The Communication Programme

In an attempt to improve the labour relations problems at Jaguar, Egan instigated a comprehensive communication programme with Jaguar's managers and shopfloor workers. This aimed at involving the entire workforce in the company's recovery programme, and at circumventing, and diluting the power of, the trade unions.[132]

The issue of poor communications between management and labour had been identified by the CPRS in 1975 as being one of the main causes of poor industrial relations in British industry[133], it noting that:

> There are few effective channels of downward communication, and in many cases management only communicates to its workforce through trade unions and shop stewards. This process of communication, which is largely by word of mouth, often leads to inaccuracies and distortions. In addition, not only are the channels of communication often inadequate, but the transmission of information is often impeded by the lack of adequate communications equipment. [134]

The communications programme instigated by Egan was widely publicised by Jaguar as an essential element in its attempts "to bring about a revolutionary shift in the industrial culture of the car industry".[135] But there was little that was particularly new about the concept, or its implementation, other than the utilisation of modern technology such as videos and video-conferencing. The use of bulletin boards, posters, and staff magazines had been used by Lyons, as mentioned in Chapter Three, to inform his shop floor workers on various issues. Edwards, who regarded the communications programme as being "pretty radical", recounted how he and Egan together would talk to all the labour

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[131] John Grant Interview. *Appendix* p97.
[132] Underwood. *op.cit.* p85.
[133] CPRS p101.
[134] *Ibid.* pp101-102.
[135] Underwood. *op.cit.* p84.

force in a day: "Five hundred a session, answering any questions anybody wanted.....In one day we were talking to eight thousand people".[136] Such mass communication sessions, in fact, had been a feature of BL's communications, Edwardes describing how at Austin Rover in 1979, "Harold Musgrove and his team put the product strategy across to some 18,000 employees - on day and night shifts - talking virtually continuously to groups of 1,000 people at a time".[137]

But, with the exception of the Quality Circles, discussed in the next section, communication tended to be downwards only, which was perhaps not too surprising given that when, according to Ainsworth, "people spoke out of turn at some of these meetings they were warned off by the foremen".[138] Eventually, according to Edwards, although the communication programme continued throughout the period of Egan's management, "we ended up turning our back on it to some extent"[139], something that did not appear to go unnoticed on the shopfloor. Ainsworth opined that Egan got bored with the communication meetings, and "left them to other directors or managers to do".[140] However, given the deteriorating labour relations discussed in the previous section, it is obvious that the communications programme had proven to be singularly ineffective in strengthening labour relations.

6.9 The Myth of the Success of Jaguar's Quality Circles

From 1982 onwards Egan was to make much of the success of Quality Circles in improving quality standards at Jaguar. First highlighted as an important factor in Jaguar's quality improvement, and worker communications, programmes in Egan's address to the Automotive News World Congress in August 1982, their continued importance and growth was usually reported on in the company's Annual Reports. In 1982 Egan was reporting the existence of 60 Quality Circles involving 10% of the workforce.[141] By 1987 this figure had increased to 100 Quality Circles[142], and to 200 by 1988[143]. These figures

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[136] John Edwards Interview. *Appendix* pp58-59.
[137] Edwardes, Michael. *Back from the Brink. An Apocalyptic Experience* (London, 1983). p172
[138] Bob Ainsworth Interview. *Appendix* p3.
[139] John Edwards Interview. Appendix p58.
[140] Bob Ainsworth Interview. *Appendix* p3.
[141] *Automotive News*. 30 August 1982.
[142] Jaguar Annual Report and Accounts 1987 p16.
[143] Jaguar Annual Report and Accounts 1988 p16.

look impressive, but Underwood records workers' claims that these are deceptive since some Quality Circles failed to meet as often as was believed.[144] Indeed, it is clear now that the accounts of the influence and success of the Quality Circle in Jaguar was more a part of the illusion Jaguar sought to create – inculcating and reinforcing a public perception of excellence and superiority that in reality did not exist. In this regard, it is problematic whether the doubling of the number of Quality Circles in 1988, the year in which quality problems were the main factor in the halving of Jaguar's profits, was a genuine attempt to resolve the many quality issues with the XJ40, or whether the reporting of it was the important point. As trade unionist Ron Newcombe observed, "One of the things about Quality Circles is that if you tell the customer you've got Quality Circles in your factory, they think they're getting a better motor car — so let them believe it!"[145]

Whilst the label "Quality Circle" was new to Jaguar, the concept was not; the objectives and format appearing to be little different from the Joint Production Committee set up by Lyons in 1946, mentioned in Section 3.5 above. In its new guise the procedure, at the time it was re-introduced into Jaguar, had been a feature of US and Japanese manufacturing for some time. As with the Joint Production Committee it involved a small group of workers from the same work area meeting voluntarily, often with one or two managers, to discuss, and, hopefully, solve their work problems.[146] The resultant benefits were postulated to be not only quality improvements and productivity savings, but also a more highly motivated workforce who would begin to be more involved with the company, and feel a greater sense of purpose with management. According to Iacocca, who introduced Quality Circles in Chrysler, their main benefit is that, "the word gets around pretty quickly that management is listening, that we really care about quality, that we're open to new ideas....That may be the most important consideration of all when it comes to quality—that the worker believes his ideas will be heard".[147]

However, from the perspective of the shop floor there were two problems

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[144] Underwood. *op cit.* p91.
[145] Quoted in Underwood. *op cit.* p91.
[146] Underwood. *op cit.*p88.
[147] Iacocca. *op cit.* p175.

presented by Quality Circles. The first was that they were seen as being aimed at routing employees away from trades union influence or control, as previously pointed out in Sub-Section 4.3.2, Ainsworth recounting that, "Egan was pretty anti-union, and we [the shop stewards] thought Quality Circles were a way of circumventing the unions".[148] Second, there was the problem that most of Jaguar's shop floor workers believed, according to Ainsworth, that Quality Circles "were only a talking shop. It was a case of going through the motions. The fundamentals were that people did not believe the management was interested in quality".[149] This echoed Grant's observation, quoted in Section 6.7 above, that, "there was a lack of trust, there was a lack of belief in the management because they wouldn't listen, they wouldn't respond when people complained". This assertion regarding management insularity was well illustrated by the following anecdote from Grant regarding an assembly worker who finally found a sympathetic audience in Bill Hayden:

> This guy was putting in a plastic wheel arch wire which was pre-drilled to match up with the pre-drilled holes in the bodywork. But they didn't match up, and the part was too big, so he had to bend it in a way that it was not designed to be bent to make it fit, and then he had to get a drill and drill holes through the painted bodywork, which was an absolute criminal act - you don't drill holes through painted bodywork because it's a guaranteed rust problem. And, he was not only drilling holes through painted bodywork, he was having to drill them blind - up through the wheel arch, and he knew that there were wires on the other side. And he said 'I can't see if I'm drilling through the wires but I have to drill the thing to make it fit. I've been complaining about this since the car was introduced in 1986, but nothing's been done about it. I've complained 'til I'm blue in the face - nobody will pay any attention'. He hated having to do it, he knew he was doing the wrong thing, but he'd been given no option.[150]

Beasley believed that Quality Circles worked, "in so much as they moved us forward", but qualified this statement by adding that they did not "move us forward far enough".[151] Scheele doubted that much could have been achieved since, "people hadn't been trained in all the techniques that you need to be trained in before Quality Circles

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[148] Bob Ainsworth Interview. *Appendix* p3.
[149] Bob Ainsworth Interview. *Appendix* p3.
[150] John Grant Interview. *Appendix* p93
[151] Mike Beasley Interview. *Appendix* p7.

have any use. They weren't dealing with data. What they were dealing with was 'I think it's this' or 'I think it's that'"[152]. Edwards adopted a more extreme view, and was quite emphatic that "Quality Circles were a lot of bullshit"[153]. Certainly there was a considerable element of illusion regarding the success of Quality Circles, but also there is little doubt that Egan suffered from delusion here. Indeed, Underwood narrates how, by 1989, Egan had recognized that he had not always been given an accurate picture of what was being achieved by his Quality Circles, admitting that, "there was seemingly more being done than actually was being done", with the instructions given to Jaguar's 600 middle managers often being reported as having been actioned when they had not.[154]

6.10 Summary and Conclusions

The creation and maintenance of the illusion of Jaguar as a company with a rejuvenated manufacturing operation, free of many of the industrial relations problems that had given the British motor industry such a poor reputation, was an important element in restoring and maintaining dealer and customer confidence, and thus enhancing its sales performance, and profitability. The extent of this illusion would only become apparent after Ford acquired the company when it achieved a transformation of labour relations, and significant improvements in productivity, through its success in challenging and overcoming the ingrained attitudes prevalent throughout Jaguar.

Although Jaguar remained a production-led company, as was shown in the previous chapter of this thesis, its ability to improve the efficiency of its manufacturing function was constrained by its management's opportunistic volume-focused strategy, and its consequent inability, or unwillingness, to challenge and reform the corporate culture which gave rise to poor labour relations. Consequently, little changed from the time that Jaguar had been owned by BL, with the Egan management failing to recognise that much of the problem resulted from the corporate ethos it had inherited from BL, with both labour and management pursuing their own selfish interests.

Jaguar's production facilities, in terms of both plant and equipment, particularly that at Browns Lane, remained antiquated and suffered from deficiencies in

[152] Nick Scheele Interview. *Appendix* p132.
[153] John Edwards Interview. *Appendix* p61.
[154] John Egan quoted in Underwood. *op cit* p204

regard to manufacturing systems, discipline, and production management, and from outmoded working practices. Undoubtedly Jaguar's management must shoulder much of the blame for this situation, failing to recognise and address the weaknesses resulting from a dysfunctional organization, and inadequate corporate resources. Furthermore, management seemed concerned that attempts to reform outmoded and restrictive working practices would jeopardise production in a period of rising demand, and thereby damage the company's prospects. It is not surprising, therefore, that Jaguar's failure to tackle the issue of bad working practices resulted in it being able to achieve increased production only through the time-honoured method of employing more people, and thereby sacrificing its well-publicised productivity targets. Exacerbating this was the consequent employment of more supervisors, who became part of the problem rather than the solution. The fallacy of this was demonstrated by Ford who, in abolishing three supervisory levels, and empowering the assembly workers, did much to break down cultural barriers within Jaguar and resolve many of the problems adversely impacting on production.

Its production problems were masked so successfully by Jaguar, through obfuscation and through focusing attention on a prestige project such as Whitley and the increasing levels of capital expenditure, that they attracted little comment from the media, or the City, at least while Jaguar's profits continued on an upward path. In any case, whilst Jaguar continued to be perceived as a success story, few commentators were likely to want to question whether such success was ill-founded.

Jaguar's success in maintaining the illusion of it having few labour relations problems was apparent from the little attention this received from media and City audiences. Indeed, such audiences had been reassured as a result of Jaguar's continued promoting of the success of its programme of directly communicating with the workforce, and particularly its Quality Circles, in overcoming labour relations and quality problems. As with other aspects, such as marketing and quality issues, it is testimony to the strength of Jaguar's PR effort, and the extent to which the audience for Jaguar's PR messages wanted to believe it, that it was able to maintain this illusion for so long. As was noted in Section 5.7 above, Finn believed that everybody wanted Jaguar to win, and received considerable support for its PR effort, at least initially, from external influences

such as the government, with Norman Tebbit, a member of the Thatcher Government, praising Jaguar's success on television.[155]

The PR effort, however, was even more successful in concealing the nature and extent of Jaguar's quality problems, particularly in regard to the XJ40. These issues are discussed in the following chapter.

[155] John Edwards Interview. *Appendix* p51.

CHAPTER SEVEN

QUALITY AND RELIABILITY, AND THE SUPPLIER ISSUE

7.1 Introduction

In Chapter Three of this thesis it was disclosed that quality had long been a problem for Jaguar, although in the 1950s much of this stemmed from manufacturing deficiencies as quality was sacrificed for volume. However, it was not until the launch of the Series III in 1979 that design faults became a significant cause of quality problems. As has been shown in Sub-Section 5.6.4, it was the perception of improved quality that enabled Jaguar's US sales recovery in 1981. Sales growth continued until the US launch of the XJ40 in 1987 when the quality problems of that model led to problems for Jaguar, and the consequent take-over by Ford at the end of 1989. Given its central importance in determining the fortunes of Jaguar, it is appropriate that the issue of quality should be treated as a discrete topic, and examined in greater depth in this present chapter.

A motor car is a highly complex and expensive piece of machinery, consisting of thousands of different parts, which, as *Motoring Which?* informed its readers in 1972, "you should be able to rely on not to break down, nor spend much time off the road in need of repair".[1] Indeed, Marcus Jacobson, Chief Engineer of the Automobile Association, in giving evidence to the 1975 Committee, stated that a motor car should be like a Swiss watch – "You buy it at the price which you can afford; you get it serviced once a year and forget about it".[2] This, the Committee concluded, "underlines the paramount importance of producing a reliable and fault-free product in the first place".[3] However, the problem is that the motor car, unlike a Swiss watch, is invariably subjected to high levels of wear and tear, and to extremes of temperature, and, at best, as *Motoring Which?* pointed out, "cannot be expected to perform entirely without fault".[4]

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[1] *Motoring Which?* July 1972. p102.
[2] "Motor Vehicle Industry. Fourteenth Report from the Expenditure Committee, with Evidence taken before the Trade and Industry Sub-Committee, and Appendices". (Hereafter Expenditure Committee XIV Report). *Parliamentary Papers*. 1974-75. vol XXV. Q1681. p627.
[3] *Ibid.* para 170, p75.
[4] *Motoring Which?* July 1972. p102.

Even so, the magazine added, some marques offered better standards of reliability than others, and reliability was often the most important factor determining the overall fortunes of any particular motor manufacturer.

Reliability obviously is a function of the quality of design, materials, and workmanship that goes into the manufacture of any particular motor car, and is an aspect of paramount importance to consumers in determining the choice of vehicle. The CPRS in 1975 concluded that while not specific to the motor industry, a high standard of quality and reliability was essential given the importance of car purchase to consumers and of market share to manufacturers, noting that the motor car was usually the second largest item of family expenditure on durable goods after a house.[5] Indeed, in the late 1970s, "the average car-owning household spent 15.8% of expenditure on the car, divided roughly equally between usage and acquisition costs".[6]

Ray Nunwick, the Head of the Consumers' Association Car Test Unit, informed the 1975 Committee that there was considerable evidence to suggest that reliability was the main factor in a customer's choice of a car[7], a view that was echoed twelve years later when J D Power, addressing the 1987 World Auto Congress, stated that, "The buyer selects a car based on quality and reliability, not on image as in the past".[8] Mike Dale strongly supported this view, asserting that in the USA, because of the lack of adequate public transportation outside the cities, reliability was the crucial factor determining motor car purchase, and far more so than in a small country like the UK.[9]

Given this, it follows that a high standard of quality and reliability is an important determinant of market share. Here, Nigel Fox, Head of Car Test Project Work, *Motoring Which?*, informed the 1975 Committee that, "the amount which the customer is prepared to buy again follows very closely in general the reliability of the product".[10] The CPRS noted that, "Low quality leads to customer dissatisfaction and to a long-term loss of market share"[11], and that, "once a reputation for quality begins to be eroded, recovering

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[5] Central Policy Review Staff. (CPRS). *The Future of the British Car Industry.* (London, 1975) p26.
[6] Foreman-Peck, James, Bowden, Sue, and McKinlay, Alan. *The British Motor Industry.* (Manchester, 1995) p194.
[7] Expenditure Committee XIV Report. Q1705. p631.
[8] *Automotive News.* 3 August 1987.
[9] Mike Dale. e-mail to the Author. 13 July 2007. *Appendix* p35n36.
[10] Expenditure Committee XIV Report. Q1716. p632.
[11] CPRS. *op.cit.* p68.

that reputation is difficult, expensive and time consuming".[12] Williams *et al* chose to ignore such evidence, and argued, in relation to BL sales in the 1970s and 1980s, that, "external market limitations are more fundamental than the poor quality of the company's product"[13], but offered no evidence of their own to support such a statement. As was demonstrated in Chapter Five above, the vital aspect is that of image, or reputation, since it is consumers' perceptions of the quality and reliability of a particular marque that determine its sales in a particular market, such perceptions being determined by diverse influences such as advertising, media coverage, and peer group influence. The reality is that reliability, by definition, is a function of the long-term usage of a particular vehicle, and cannot, therefore, be determined by inspection alone. It is not too surprising, therefore, that perceptions of reliability seldom match reality, for as Iacocca observed in regard to restoring a quality image, "With something so important, you can't just wave a wand and presto! Even if your product gets better right away, it takes time for the public to realize it".[14]

Despite its undoubted importance, reliability, according to *Motoring Which?* in 1972, was, "more a pious hope – and an often disappointed hope at that – than a fact, in most modern motor cars"[15], and opined that, "as far as cars are concerned, the word is something of a euphemism".[16] In support of these statements the magazine cited the results of a survey of 23,500 members of the Consumers Association which showed that over half of the cars belonging to these members had spent some time off the road in the previous year, "beyond the time they needed for ordinary servicing".[17] Although Whisler records that poor quality and reliability were features long associated with British-made cars[18], it is clear from *Motoring Which?,* and other surveys, that no model or marque, no matter what country of manufacture, was without some fault, and that levels of quality and reliability varied according to manufacturer and model. Indeed, whilst the 1975

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[12] *Ibid.* p70.
[13] Williams, Karel, Williams, John, Haslam, Colin. *The Breakdown of Austin Rover: a case study in the failure of business strategy and industrial policy.* (Leamington Spa, 1987). p72.
[14] Iacocca, Lee. *Iococca. An Autobiography.* (New York, 1984) p173.
[15] *Motoring Which?* July 1972. p102.
[16] *Ibid.* p98.
[17] *Idem.*
[18] Whisler, Timothy R. *Niche Products in the British Motor Industry: A History of MG and Triumph Sports Cars, 1945-1981.* Unpublished PhD thesis. London, London School of Economics, 1991. p315.

Committee expressed concern that, "the British performance had been discernibly poorer for some years, and that there was no sign of an improvement", it noted that vehicles produced by Continental manufacturers were not without their quality problems.[19]

Furthermore, poor quality and reliability was not a feature of British and European motor manufacturers alone, but was, particularly in the 1970s and early 1980s, an issue of equal concern to at least some North American motor manufacturers. Iacocca relates that when he became head of Chrysler in 1979 he found that, for years, "Chrysler's quality had been so poor that the dealers got into the habit of expecting to rebuild the cars when they received them".[20] Likewise, Halberstam recounts how for Ford's North American operations in 1978, "quality was becoming an issue, although something of a secret one"[21], but, even so, it was not tackled until Philip Caldwell became Ford's President in 1979, and it took over two years for the measures consequently adopted to result in improved quality.[22] Luxury cars also experienced problems in this area, Cadillac in particular suffering from the 1970s onwards as it increased production at the expense of quality, a move that, according to Keller, "would nearly cripple Cadillac".[23] Indeed, as Keller further notes, during the 1970s and early 1980s, "the high-sticker Cadillac cars were rife with defects, many of which were severe enough to make the car inoperative or dangerous on the highway."[24]

Thus, during the 1970s at least, a degree of unreliability formed part of the price of vehicle ownership, but whilst reliability was of vital concern to many consumers, not all behaved rationally in their purchase behaviour. Rational factors here, other than price, include, as noted earlier, perceptions of reliability, quality, and safety. However, non-rational factors such as fashion, the image given off by a particular marque, or greater actual performance were also important and might be considered reasonable trade-offs for lower levels of reliability. Support for this was provided by *Motoring Which?* in 1972 when its survey found that the Jaguar XJ6 was one of the three cars which its members stated they were most likely to buy again, prompting it to comment:

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[19] Expenditure Committee XIV Report. Para 164 pp72-73.
[20] Iacocca. *op cit.* p172.
[21] Halberstam, David. *The Reckoning* (London, 1987) p609.
[22] *Ibid* p643.
[23] Keller, Maryann. *Rude Awakening. The Rise, Fall, and Struggle for Recovery of General Motors* (New York, 1989). p75.
[24] *Idem.*

> The Jaguar's popularity is particularly remarkable in view of the fact that it is very unreliable, typically spending a week off the road in need of repairs each year. It is expensive to run - about £20 a week. But it does give an excellent combination of speed, good handling and comfort. If it were more reliable, it would be an outstandingly good car.[25]

Such surveys found that the higher priced specialist or luxury cars had an image of higher levels of quality and reliability, than did lower priced models, although somewhat paradoxically a specialist car such as a Jaguar is, as Grant noted, more complex, and therefore, "there are more things that can go wrong".[26] Sir William Lyons defined the specialist car as being "one which offered particularly high standards of design, manufacture and performance — with an emphasis on quality and luxury, particularly if it were a saloon or a convertible. These attributes appealed to the connoisseurs of motoring who were invariably prepared to pay a considerable premium for such vehicles".[27] Echoing this, Bill Hayden, the Ford Vice President appointed as Jaguar's Chairman in 1990, observed that, "A person doesn't buy a Jaguar and expect it to be fraught with quality problems".[28] But, unfortunately, the Jaguar product in 1990 was indeed fraught with quality problems, the extent of which, as already noted in Sub-Section 4.2.3 above, had "nearly brought the company to its knees".[29]

This present chapter explores the reliability and quality issues that faced Jaguar, their causes, and their consequent impact on the company, and questions not only whether Jaguar's ability to conceal the extent of its quality problems was its most successful illusion, but also whether these problems were not overcome because of Egan's failure to identify the weaknesses in Jaguar's corporate culture, and bring about a radical redirection of Jaguar's entrenched engineering and managerial functions.

As was the case with Chapter Four of this thesis, much of the data and analysis presented in this chapter is based on information obtained from personal interviews. This is of necessity, given the refusal of Ford to allow the author access to the

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[25] *Motoring Which?* April 1972. p71.
[26] John Grant. Interview with the author. January 1993. *Appendix* p91.
[27] Quoted in Adeney, Martin. *The Motor Makers. The Turbulent History of Britain's Car Industry.* (London, 1988) p127.
[28] Quoted in *Automotive News*. 9 July 1990.
[29] Nick Scheele. Interview with the author. May 2007. *Appendix* p130.

Jaguar archives, but given the anecdotal evidence regarding the shortcomings of Jaguar's data collection and analysis in respect of quality issues during the Egan era[30], it is problematic whether the archives would reveal much more than has been obtained in this study. Whilst personal recollections of the problems with quality, and the part played by the engineering function, might well have been prone to exaggeration, or personal bias, particularly old animosities, the degree of unanimity across the interviewee group, suggests that a considerable degree of reliance can be placed on the information thus obtained. Indeed, the evidence thus collected leaves little scope for ambiguity regarding the nature and extent of Jaguar's quality problems. Even so, whilst there has been less scope to do so, given the lack of archival and published material on the subject, triangulation has been undertaken wherever possible. There is, therefore, a considerable degree of confidence in the soundness of the analysis presented in the following sections.

7.2 Warranty Claims, and Other Costs of Poor Quality and Reliability

In common with all other motor manufacturers, Jaguar sold its cars with a warranty, or guarantee, under which defects would be rectified, and defective components would be repaired or replaced free of charge to the owner, the costs of so doing being invoiced to Jaguar by the dealer concerned. Warranties were, and continue to be, seen as "a sales tool....[which] provide the customer with peace of mind"[31], and undoubtedly played a particularly important part in the sale of higher-priced cars. Indeed, as "a Jaguar spokesman" commented in 1986, "European cars are primarily luxury cars. Extended warranties are an extended marketing tool. It's difficult to sell a $30,000 car on 12 and 12 [one year/12,000 miles]".[32]

In 1984, at the time of Jaguar's privatisation, it offered a warranty coverage of one year, except in North America where the warranty covered twenty-four months, or 36,000 miles, whichever was reached first, in addition to which there was a six-year body corrosion warranty.[33] However, Jaguar was still not competitive with Mercedes which, in 1984, increased its three-year/36,000-mile complete-car warranty to four years, or 50,000

[30] John Grant Interview. *Appendix* p91; Mike Dale. Interview with the author. June 2007. *Appendix* p46; Mike Beasley. Interview with the author. February 2003. *Appendix* p7.
[31] "Mercedes spokesman" quoted in *Automotive News*. 5 May 1986.
[32] "Jaguar spokesman" quoted in *Automotive News*. 5 May 1986.
[33] Jaguar Offer for Sale document, 1984. p5.

miles.[34] It was not until 1986 that Jaguar, as part of the launch package for the XJ40, increased its warranty coverage to three years, or 36,000 miles.[35]

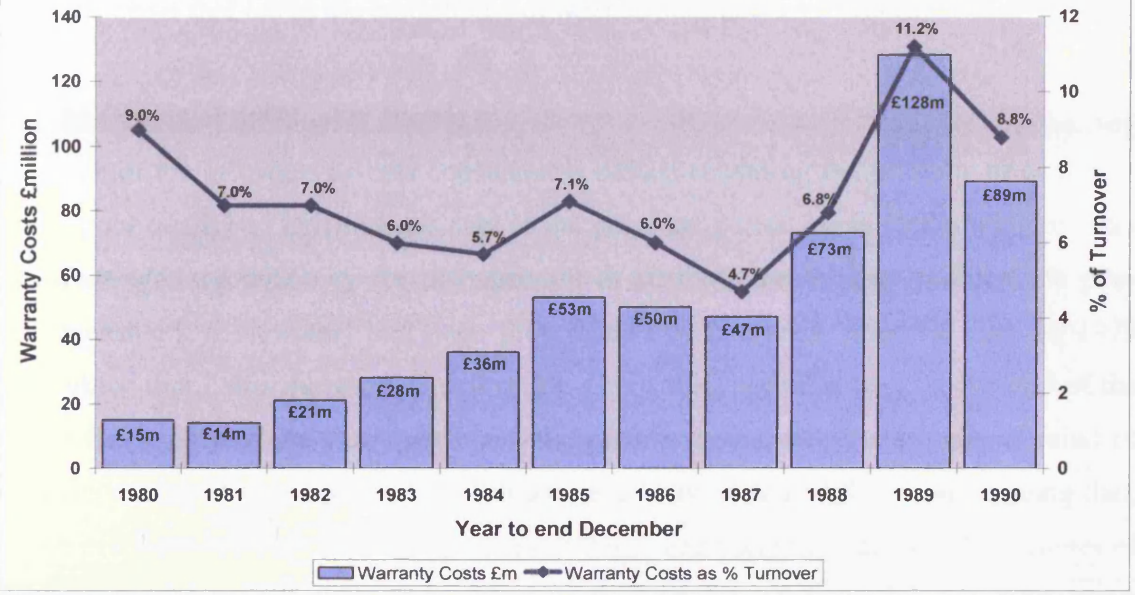
Claims against warranty were the direct price paid by Jaguar for poor quality and reliability and, as such, provide some degree of quantification of the problem. However, it has to be appreciated that warranty costs in a particular year, although charged to that year's profits, do not necessarily relate to that year's turnover given the two or three years' warranties applicable in the USA, so that repairs under warranty might well relate to a car that was sold in a previous year. Indeed, it is possible that the increase in the 1985 warranty figure, for example, was in part a function of the 50% increase year on year US sales in 1983, and the further 20% increase in 1984, although there were some other specific problems, such as three recalls on the Series III V12 in the USA in that year.[36] As is shown in Figure 7.1, warranty costs were gradually and significantly reduced in respect of the Series III, but then increased dramatically due to the quality defects and reliability problems of the XJ40. These issues are discussed in the sections that follow.

The significance of warranties is that their costs became a major contributory factor in the decline of Jaguar's profits from 1987 onwards (see Sub-Section 8.4.7 below). Indeed, Grant observed that fixing the quality was Ford's absolute prerequisite when it took over Jaguar since, "The future, in fact, was rapidly disappearing in a cloud of warranty claims because the quality had just been catastrophic".[37] Exacerbating these warranty costs, but not quantifiable, were the "out of warranty costs" which were claims allowed by Jaguar Inc for rectifying faults which occurred, for example, when a vehicle may have been just outside the warranty, or mileage, period. In addition, in relation to the XJ40, there were the costs of recalling vehicles to rectify Jaguar-identified problems. Such costs, according to Dale, amounted to "many millions of dollars".[38]

Other non-quantifiable costs resulting from the quality issue were those resulting from increased research and development expenditure due to re-engineering work, rectification following assembly, and re-specification, retooling, and process

[34] *Automotive News*. 5 May 1986.
[35] *Idem*.
[36] Mike Dale Interview. *Appendix* p38.
[37] John Grant Interview. *Appendix* p87.
[38] Mike Dale Interview. *Appendix* p46.

Figure 7.1: Warranty Costs (£million), and as % of Turnover, 1980 to 1990



Source: John Edwards; Jaguar Reports and Accounts 1984 to 1990; Jaguar Offer for Sale document, 1984.

Note: Total revenues included sales of parts, and of military engines, which were unlikely to be subject to warranty claims, with the result that the above warranty costs as a percentage of turnover are likely to be understated.

reorganisation that resulted from inaccurate and flawed designs, particularly in respect of the XJ40 (see Section 7.7 below), although these aspects were common to all Jaguar models prior to the Ford takeover, as was revealed in Sub-Section 6.4.2 above.

Although such costs were damaging to the company's finances, they paled into insignificance compared to the impact that poor quality and reliability had on the company's reputation, and hence sales volumes. As was explained in Sub-Section 5.6.5 above, Jaguar Inc. attributed the downturn in its US sales volumes in the period 1988 to 1991 largely to Jaguar once again suffering from a poor quality image following the US launch of the XJ40, rather than the decline in the overall market. This led *The Sunday Times* to comment, well after the Ford takeover, that, "The company is paying the penalty for quality defects".[39]

[39] *The Sunday Times*. 27 October 1991.

Interestingly, this was hardly a new experience for the British motor industry for, as Whisler has shown, the poor quality, and resulting high warranty claims and poor product image, of the Triumph Herald were the "primary short-term factors" in the financial crisis that led to the bankruptcy of Standard-Triumph in 1960/61.[40]

7.3 The Causes of the Quality Problem

A search of the literature reveals considerable debate regarding the primacy of causation of the poor quality of British-built cars in the post-war period up to 1990. Whisler notes that there was the tendency for management to attribute the 'quality problem' to poor workmanship[41], a view that had been propounded by Nunwick when he told the 1975 Committee that, "this question of defects on new vehicles comes back at the end of the day to the quality of the workmanship, which is associated with the attitude of mind of the man putting the car together".[42] Williams *et al* have disputed this view, arguing that, "work practices can only directly explain a small proportion of the quality deficiencies of British manufactures"[43], and lay the blame firmly on "management".[44] However, given that management, by definition, has ultimate responsibility, and accountability, for the firm's actions and outcomes, the Williams *et al* argument can be seen as little more than a truism, contributing nothing to an understanding of the fundamental issues involved. Whisler, on the other hand, argued that, at the macro level, the causes of low quality "related to the industry's wider problems"[45], and here his advocacy of the explanation offered by the rigidity of pervasive corporate socio-economic institutions[46] is compelling, but, once again, the relative importance of the myriad of factors that could lead to poor quality have to be considered.

These factors are complex and interrelated and, in addition to poor workmanship, and the problems caused by deficiencies in the manufacturing process

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[40] Whisler, Timothy R. *The British Motor Industry 1945-1994. A Case Study in Industrial Decline.* (Oxford, 1999) p334.
[41] *Ibid* p358.
[42] Expenditure Committee XXIV Report. Q1715. p632.
[43] Williams, Karel, Williams, John, Thomas, Dennis. *Why are the British Bad at Manufacturing?* (London, 1983) p46.
[44] *Idem.*
[45] Whisler. *The British Motor Industry 1945-1994* p358.
[46] *Ibid.* p9.

itself, described in Chapter Six above, include defective designs, processes, and parts. These deficiencies were exacerbated, in the case of British manufacturers generally, by the refusal of management to entrust labour with the responsibility for quality control[47] and, furthermore, in the case of Jaguar by the refusal of management to listen to the quality concerns raised by the workforce and the unions.[48] Whisler argues persuasively that such attitudes were the product of management fears that labour would redirect empowerment towards industrial action.[49] However, there is very little quantitative evidence regarding the relative importance of the factors leading to overall poor quality in the 1980s, either from the industry overall or from Jaguar. Certainly, Jaguar, despite the hype of the early Egan days, had little idea of the relative importance of the factors that had resulted in high warranty costs, discussed in Sub-Section 4.3.1.1 above. Grant recalled that Jaguar's end of production line quality assessment system, when it was first acquired by Ford, "was not honest. Things they didn't know how to fix they didn't count".[50]

One study that did provide some indication of the relative importance of, and responsibility for, faults leading to warranty claims was published in the 1975 CPRS report. This was based on an analysis of the causes of the top ten warranty problems identified by consumers on three different models produced by the same, unidentified, manufacturer. The results are shown in Table 7.1 below.

Since the actual models concerned were not identified it is pointless attempting any explanation of the reasons for the different patterns of causation – for example, whether due to greater complexity of design or greater difficulty of manufacture. However, the study does draw attention to the problems, and consequent disproportionately high costs, of faulty design, an aspect that seems to have been ignored by many academics. Indeed, Whisler, writing some sixteen years after the publication of the CPRS report, observed that, "no one has closely examined the connection of unreliability with poor engineering".[51] This is particularly true in regard to Jaguar in the

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[47] *Ibid* p358.
[48] John Grant Interview. *Appendix* p98; Nick Scheele Interview. *Appendix* p134; Bob Ainsworth. Interview with the author. 16 October 2003. *Appendix* p2.
[49] Whisler. *The British Motor Industry 1945-1994*. pp358, 403.
[50] John Grant Interview. *Appendix* p91.
[51] Whisler. Unpublished PhD thesis. p16.

Table 7.1: Causes of Top Ten Warranty Problems for Three Models from an Unidentified UK Car Manufacturer

Responsibility (Examples)	Model X % of Faults	Model X % of Warranty Costs	Model Y % of Faults	Model Y % of Warranty Costs	Model Z % of Faults	Model Z % of Warranty Costs
Component Supplier (Inoperative switch, printed wiring defects)	28	13	20	12	31	13
Design (Speedometer cable, clutch judder)	29	29	68	83	54	67
Manufacture (Water leaks, door lock)	43	58	12	5	15	20

Source: CPRS Report, 1975. p11

1980s, probably due, at least in part, to what *Automotive News* later referred to as Jaguar having "cleverly prevented" its major problems from "tarnishing the company's rejuvenated reputation"[52], but also due to Egan's early tactic of successfully deflecting the blame onto component suppliers, as discussed in Section 7.8 below. However, it is clear from the anecdotal evidence gathered for this thesis that whilst problems in manufacturing produced a number of quality problems, discussed in Section 6.4 above, the poor quality of the XJ40 owed much to pervasive weaknesses in Jaguar's own product engineering department, Scheele stating categorically that, "the problems on the XJ40 were largely engineering in nature".[53]

Dale recalled that, in retrospect, his project engineer on the XJ40 had told him there had been over 250 things that, "we knew were wrong with the car that we simply couldn't fix because there just wasn't time, there just wasn't the engineering ability".[54] Weidinger in discussing the quality problems of the XJ40 drew a distinction

[52] *Automotive News*. 2 April 1990.
[53] Nick Scheele Interview. *Appendix* p130.
[54] Mike Dale Interview. *Appendix* p34.

between engineering-originating problems, and those that resulted from defective components, or manufacturing deficiencies:

> The XJ40 had many, many faults, and what was the bad part was it had faults that couldn't be repaired. We could replace motors and transmissions; we could fix leaks; we could fix different things when they failed. There was a high rate of failure. Things like when you're going up a hill at 60mph and the shifts wouldn't operate effectively. It would struggle to get up - it was clearly an engineering problem. There were quite a few of those.[55]

7.4 Product Engineering and the Quality Problem

Although the problems attributable to Jaguar's product engineering function had been masked by the company's well-executed PR agenda, there are four issues that are readily identifiable: lack of engineering resource; employment of inadequately qualified engineers; engineering's concern with engineering excellence *per se* and its failure to appreciate commercial realities; the failure, or refusal, of engineering to incorporate manufacturing considerations into their designs. These are discussed in turn in the sub-sections that follow.

7.4.1 The Issue of the Lack of Engineering Resource

The fundamental problem appeared to be that Jaguar was under-resourced in terms of engineering capability. As Grant pointed out:

> [Jaguar] had 230 engineers back in the early 1980s. By the time the XJ40 was launched the company had 430 engineers....230 or 430 engineers are not enough to be able to design and develop a car with the sophistication of the XJ40. It can't be done, never mind looking after sustaining the existing products that always require some on-going engineering work as well.[56]

This view was supported by Mike Dale who stated that, "Jim Randle was trying to run two model lines, the XJ-S and the Series III, and was trying to put the XJ40 together on 200 engineers. So he could have been a genius, but it wouldn't have worked".[57] Egan, in retrospect, agreed with this view, reflecting that, "perhaps we'd given

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[55] Jake Weidinger. Interview with the author. May 2008. *Appendix* p145.
[56] John Grant Interview. *Appendix* p90.
[57] Mike Dale Interview. *Appendix* p34.

him [Randle] a job that was impossible to do with the resources he had", but that at the time had failed to appreciate this because Randle "was always very optimistic about what he could do".[58] Here it is of note that Jaguar, in another example of obfuscation, never revealed publicly the numbers of qualified, or experienced, product engineers it employed, but rather, in its Annual Reports and Accounts, referred to numbers of staff employed in the "Engineering Function", which undoubtedly included technicians and other support staff. This probably accounts for the difference in the figure of 430 engineers in 1986 quoted by Grant, and the "over 1,000" staff employed in the engineering function at the end of 1986 stated in the Jaguar 1986 Annual Report.[59] This was in sharp contrast to the 2,000 engineers who Bhaskar *et al* cited as being employed by BMW in 1984, and the 5,000 engineers employed by Daimler-Benz[60], although we cannot be sure whether the title "engineer" meant the same for each company.

It is problematic as to the extent to which advances in the technological aids to design, such as Computer Aided Design, in the 1990s onwards enabled the substitution of capital for labour in the research and design function. Wynn-Williams found that in 2005/6 Aston Martin had an R&D strength of 170 people, and Bentley employed 600, both companies "claiming that this gave them design authority with detailed assistance on request available from their parent companies". Wynn-Williams postulated that a basic model range of three distinct models could be supported by an R&D strength of "around 1200 personnel".[61]

However, in the 1980s, what is certain is that, with the increasing sophistication of motor vehicles, there was an increasing demand for engineers. Indeed, to develop its highly successful Lexus LS400, discussed in Sub-Section 5.6.5 above, Toyota committed 2,300 technicians, and 1,400 engineers to the six-year project[62], and when the car was eventually launched in the USA, dealers, according to Bennett:

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[58] John Egan. Interview with the author. October 2007. *Appendix* p72.
[59] Jaguar Annual Report and Accounts1986. p11.
[60] Bhaskar, K N *et al. Jaguar: An Investor's Guide.* (University of East Anglia, 1984) p19.
[61] Wynn-Williams, Michael S., *A Role for International Vertical Joint Ventures Within An Automobile Industry Paradigm.* Unpublished PhD thesis. Cardiff University, October 2007. pp141-2.
[62] *Automotive News* Marketing '90 Extra, 1990.

were all surprised just how good the car was, just how reliable it was, just how well engineered it was, and the worst we could say was "It's boring", which it certainly was – getting in and turning the key and it starts every time, it never breaks down, and so on. Quite a boring car![63]

The origins of this shortage of engineers at Jaguar may be traced as much to Lyons' direction of the company as to Jaguar's integration into BL. Whisler relates that the indigenous companies in the British motor industry of the pre- and immediate post-war eras were each dominated by one designer, who, "operated in virtually autonomous isolation" and reigned supreme over the engineering department, aided by a support staff of technicians to undertake the detailed work.[64] This was a structure that was very evident in Jaguar in the era of Lyons, and then under Bob Knight, Lyons' immediate successor as design supremo.[65] It was a system that eschewed the skills of the formally trained engineering graduate in favour of the practical training of the engineering apprentice, with BL in the 1970s adopting a policy of extending its product engineering apprentice scheme rather than recruit formally trained engineers who, in any case, were in relatively short supply.[66]

Problems caused by a shortage of engineering resource could, of course, be surmounted by using external resources, such as contracting out work to consultant automotive engineers such as Hawtal Whiting, who designed and engineered vehicles for General Motors and Ford UK. Indeed, the shortage of suitably qualified engineers at Jaguar probably explains why the Series III saloon, launched in 1979, was styled by Pininfarina of Italy[67], and why the body design of the XJ40 was undertaken by BL rather than Jaguar.[68] However, there is no evidence that Jaguar ever took advantage of external engineering resources following the appointment of Randle as Engineering Director in 1980, which is unsurprising given that Randle was extremely protective of what he regarded as being "his territory".[69] It is likely that Randle's own inflexibility in this regard developed from his training at Rover which he had joined as an engineering

[63] Martin Bennett. Interview with the author. July 2008. *Appendix* p17
[64] Whisler. *The British Motor Industry 1945-1994.* p161.
[65] Underwood, John. *The Will to Win. John Egan and Jaguar.* (London, 1989). p56.
[66] Whisler. *The British Motor Industry 1945-1994.* pp156-161.
[67] Thorley, Nigel. *Jaguar in Coventry. Building the Legend.* (Derby, 2002). p130.
[68] John Grant Interview. *Appendix* p90.
[69] Mike Dale Interview. *Appendix* p37.

apprentice, and was reinforced at Jaguar, particularly since Lyons still ran Jaguar during Randle's first seven years with the company.

7.4.2 The Issue of Engineering Weaknesses

This problem, which became progressively linked to that of the shortage of engineers, concerned the actual capabilities of British motor engineers. Whisler refers disparagingly to the "myth of British motor-engineering excellence" in the 1950s and 1960s, and argues that weaknesses in engineering "contributed to the decline and prostration of British Leyland".[70] This is in marked contrast to the writings of many academics who, in praising the likes of Issigonis, best known as the designer of the Mini, have helped perpetuate the myth, with Williams *et al*, for example, praising BMC's engineering as "world class".[71] However, even the renowned Mini did suffer from major design faults, one of which Bob Dale, former head of Lucas Automotive, described as being:

> the transverse engine on the Mini and the open grill. They put the electrics between the engine and the grill. It was a low slung car, so in wet conditions water poured through the grill onto the electrics (distributor coil etc), leading to shorting. This was put down to being a problem with the electrics....The ignition problem was obvious to everyone. Their [BL's] answer was to shove a cover between the grill and the electrics – but the radiator is supposed to cool the engine, so the engine now was overheating. The problem was a design fault in putting the ignition on the wrong side of the engine, but it was seen as another case of 'Bloody Lucas!'[72]

The engineering inadequacies highlighted by such an example became even more of a problem in the 1970s as the "practical men", as Whisler euphemistically refers to the apprenticeship-trained engineers[73], lacking the necessary expertise, struggled to cope with the more complex engineering demands resulting from increasingly stringent pollution and safety legislation, increased consumer demands for greater comfort and ride, and the greater use of electronics.[74] But, as Whisler observes, the lack of formally

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[70] Whisler. *The British Motor Industry 1945-1994.* p157.
[71] Williams, Karel, Haslam, Colin, Williams, John, Johal, Sukhdev, with Adcroft, Andy. *Cars. Analysis, History, Cases.* (Providence, 1994) p137.
[72] Bob Dale. Interview with the author. May 2007. *Appendix* p30.
[73] Whisler. *The British Motor Industry 1945-1994.* p157.
[74] *Idem.*

trained engineers limited a company's stock of engineering knowledge to that possessed within the existing engineering function, with the introduction of new concepts and ideas being limited by the insular nature of apprentice training, and the rigidly defined positions of the engineering supremo and his support staff, the latter being capable only of implementing modifications such as spin-offs to existing models.[75] It had become obvious that experience was no longer a substitute for expertise. Indeed, the lack of formal training and the requirements for ever-increasingly sophisticated designs often resulted in imprecise and inaccurate specifications, and inaccurate original drawings.[76] This does much to explain the problems experienced by Jaguar with the XJ40 mentioned in Section 7.3 above, and detailed further in Section 7.7 below.

7.4.3 The Issue of Engineering's Neglect of Commercial Aspects

Here the problem resulted from the tendency for the product engineers, operating in the autonomous isolation referred to above, to focus almost exclusively on the purity of the product design, and engineering challenges, to the exclusion of factors such as the differing requirements of, and physical conditions in, the markets at which the cars would be targeted, as well as the need to generate profits. This appeared to have been particularly true of Jaguar, where, as disclosed in Sub-Section 4.3.1.2 above, Randle ran the engineering function as a fiefdom, there being an absence of the process and discipline in place to ensure that engineering was doing what it should have been doing, although there appeared to be exceptions. One such case was the XJ-S convertible for the US market, which appears to have been forced upon engineering by Jaguar Inc, but on which Randle, in Dale's view, did "a fine job".[77] Generally, however, Jaguar's engineers, in the opinion of Scheele, "were engineering cars for trolloping round the Warwickshire countryside, and they didn't design cars with any knowledge of what the US conditions were like, and we suffered massively as a result".[78] Two examples cited by Scheele, resulting from this lack of empathy with US customers, were those of the XJ40 being sold in the US market without air bags, because "Jim Randle didn't believe in air bags",

[75] *Ibid* p162.
[76] *Idem.*
[77] Mike Dale Interview. *Appendix* p35.
[78] Nick Scheele Interview. *Appendix* p136.

and without cup holders since Jaguar's engineers were incredulous of the idea that anybody would want to have a drink in a Jaguar.[79] But of greater consequence was the failure to account for different climatic conditions, this leading to considerable reliability problems, as detailed in Sub-Section 7.6.4 below.

Jaguar's engineers, as noted in Sub-Section 4.3.1.2 above, seem to have enjoyed a considerable degree of freedom in terms of what they worked on, and, according to Scheele, disdained resolving problems with the XJ40 "because they were often boring".[80] As recorded in Section 5.3 above, Putnam cited this factor as being the reason why Jaguar did not have diesel engines for such a long time. At the opposite end of the spectrum was the XJ220 concept car which eventually went into limited production, 280 cars being made, and which was "an absolute unmitigated disaster" according to Putnam. But, it was a project that besotted the engineers to such an extent that, "they were playing around with the XJ220" when they should have been focusing on the F-type.[81]

7.4.4 The Issue of the Failure to Incorporate Manufacturing Considerations into Product Design

This was a major problem, another product of the autonomous isolation of the designers, resulting from there being little or no relationship between product engineering and manufacturing, for it is one thing to design a vehicle, and hand-build a prototype, but quite another to build it successfully in volume on a production line. The issue here, according to Whisler, was that the product engineers designed cars with little or no consideration for how they would be built, resulting in numerous product quality defects, and consequent redesign, rectification, and retooling.[82] This was not a problem restricted to the indigenous British motor manufacturers for, as Iacocca related in regard to Chrysler in 1979:

> I'd call in a guy from engineering, and he'd stand there dumbfounded when I'd explain to him that we had a design problem or some other hitch in the

[79] Nick Scheele Interview. *Appendix* p136.
[80] Nick Scheele Interview. *Appendix* p130.
[81] Roger Putnam. Interview with the author. November 2006. *Appendix* p122, and p122n138.
[82] Whisler. *The British Motor Industry 1945-1994.* pp157-163.

> engineering-manufacturing relationship.....He might come up with a terrific new design. There was only one problem: he didn't know that the manufacturing people couldn't build it. Why? Because he had never talked to them about it.[83]

This was a problem that appeared to be particularly acute at Jaguar when Jim Randle was its Engineering Director, Scheele observing that, "for whatever reason, there was a huge dichotomy between engineering and manufacturing".[84] Scheele cited the wiring in the XJ40 as an example of the quality problems resulting from engineering's failure to take manufacturing considerations into consideration:

> [The XJ40] had low voltage electric wiring switchgear. And that wiring was a common loom from end to end.....you drag it through the car, it gets caught, it gets trapped, it gets pinched. You then get shorts. You get all the electrical problems that the XJ40 was prone to.[85]

That Randle should regard, and manage, engineering as his personal fiefdom is not that surprising given that all the departments at Jaguar under Egan enjoyed a considerable degree of autonomy, as noted in Sub-Section 4.3.1 above, and Randle's "practical man" values and beliefs. Having joined Rover as an engineering apprentice in 1954 at the age of sixteen, and moving to Jaguar in 1965[86], and thus steeped in the traditions of the British product engineering culture, it is natural that Randle should have sought to maintain, and jealousy guard, the autonomy of his department. Indeed, Dale relates that Randle had little understanding of the commercial realities of the business, and was, for example, offended by the high levels of profit being obtained from the Series III Vanden Plas.[87] The consequences for Jaguar of such lack of commercial awareness, however, were to be disastrous, as is discussed in Section 7.8 below.

7.5 Jaguar's Record of Quality Problems

Although the Jaguar quality defects first became a major problem in the 1970s, as mentioned in Section 3.7 above, Jaguar cars, like most other marques and models, had

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[83] Iacocca. *op cit.* p153.
[84] Nick Scheele Interview. *Appendix* p131.
[85] Nick Scheele Interview. *Appendix* p130.
[86] Underwood, John. *The Will to Win. John Egan and Jaguar.* (London, 1989) p71.
[87] Mike Dale Interview. *Appendix* p37.

always suffered quality problems to some degree. Thorley relates that, in the immediate post-war years, there were numerous complaints from Jaguar's distributors about the quality of the cars, leading Lyons to emphasise to the workforce the importance of quality through notices placed around the factory, and through articles in the company's in-house magazine.[88] However, quality was a problem that was still in evidence in the late 1950s when gigantic banners proclaiming the importance of quality to jobs were erected on the assembly lines.[89] It is not possible to ascertain to what extent quality problems at that time resulted from design faults, but obviously Lyons believed that the main issue was that of poor workmanship. It is of note, however, that whilst there were quality defects during these periods, unreliability was hardly mentioned as being an issue. According to Wood, it was in the 1968/75 era, with the advent of the XJ6 Series, that "unreliability began to infect the Jaguar marque", illustrating this statement by quoting the experience of John Barber, Managing Director of BL at this time, who had logged up fifty faults in a few months in one XJ6 "when ten was about average".[90]

The problem of reliability became more acute for Jaguar as the 1970s progressed, with the Series II, launched in 1973, becoming well known for its quality problems.[91] The Series II was more technically advanced than the Series I, being designed to meet changing legislation, particularly in the USA, and undoubtedly suffered from many of the design faults identified in the Series III, in essence a Series II modification. The quality issue with the Series II was exacerbated by deteriorating standards of workmanship and assembly at Browns Lane as a result of increasing conflict between workers and the BL management[92], and by the imposition of the sourcing of component parts by BL.[93] Body panels, manufactured at BL's Swindon plant, suffered quality problems caused by poor tooling, whilst body-building and painting was undertaken by BL at the then Pressed Steel Fisher Castle Bromwich plant where BL had installed highly sophisticated Thermo Plastic Acrylic low-bake paint technology.[94] However, this "fancy

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[88] Thorley. *op cit.* p53.
[89] *Ibid* p83.
[90] Wood, Jonathan. *Wheels of Misfortune: The Rise and Fall of the British Motor Industry* (London, 1988). p190.
[91] Thorley. *op cit. p*p129,130.
[92] Thorley. *op cit* p128.
[93] *Ibid.* p130.
[94] Underwood. *op cit* pp50-51.

new paint facility", as Grant observed:

> didn't work. The paint would fall off the cars. You couldn't get the paint to stick so they had to ship, as a temporary expedient to get cars into production, the bodies from Castle Bromwich back to Browns Lane to put them through the repair paint facility they had at Browns Lane, but where they could only paint them in three colours....It was an absolute nightmare.[95]

Ainsworth, from the perspective of the shop floor, thought the Series III was, "so bad that we'd effectively been selling people second-hand cars. We'd be repainting cars systematically and a few weeks later they would look as if they had just been repaired".[96] By the end of the 1970s, according to Thorley, "dealers were complaining about the amount of rectification work they had to carry out and owners were losing faith in the once prestigious marque."[97]

By this time, the problem of Jaguar's quality and reliability, according to Michael Edwardes, who had become Chairman of BL in November 1977, "was a thorny one, for even many of Jaguar's most enthusiastic owners in the United States would say 'It's better to have two, if you want to be sure one stays on the road.'"[98] For Edwardes, part of the problem was the ingrained attitudes at Jaguar, which he saw as manifested in the "enormous" elitist attitude of both Jaguar workers and its management, with some managers, in his view, being "more concerned with producing new models and reaching new standards of engineering excellence, than with managing the business".[99] Edwardes noted, "that warranty costs were too high; that dissatisfied customers wrote or telephoned us from as far afield as the west coast of the United States, and that the failure of components, particularly electrical, was putting the reputation of the car at great risk".[100] However, as may be appreciated from the discussion in the following sections, it is problematic as to whether the failure of electrical components can be blamed on the component manufacturer or on inappropriate specification, or inept installation, on the part of Jaguar.

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[95] John Grant Interview. *Appendix* p90.
[96] Bob Ainsworth Interview. *Appendix* p2.
[97] Thorley. *op cit.* p128.
[98] Edwardes, Michael. *Back from the Brink. An Apocalyptic Experience* (London, 1983) p176
[99] *Ibid* p175.
[100] *Idem.*

Such was the poor reputation of Jaguar in the important USA market that, at this time, JD Power did not include Jaguar in its annual independent report on automakers' customer satisfaction because so few Jaguar owners were willing even to discuss their ownership of the cars.[101] Another particular problem for the US market was that of delivery timing, Dale recalling that Jaguar was so late in starting production on the 1981 model year cars that it gave up and went straight to the following model year.[102]

7.6 The Resolution of Series III Quality Issues under Egan. A Triumph of Style over Substance?

7.6.1 The Quality and Reliability Problem in 1980

When Egan took charge of Jaguar, product quality and reliability was disastrous. According to Grant, "It was just an absolute nightmare. Everything was wrong with the cars. Nothing would fit. It was terrible".[103] Warranty costs were running at 9% of turnover, as shown in Figure 7.1, and the cars had a widely held, and indisputable, reputation for poor reliability.[104] Underwood states that Egan accepted that the cars had a poor reputation for reliability, but believed initially that it was exaggerated by the sales department as an excuse for their failing to sell cars.[105] Given Egan's strong antipathy towards all aspects of BL, discussed above in Chapter Four, and that at this time Jaguar's sales were the responsibility of BL's overseas sales division, it is perhaps not too surprising that Egan should be somewhat blinkered in his views here. However, as Underwood further relates, Egan was disabused of this notion when, in June 1980, he met with twenty-five UK Jaguar dealers who made Egan realise that the cars were "badly manufactured, badly assembled and badly serviced".[106] This apparently came as a considerable shock to Egan who came to the obvious conclusion that improving the quality of the cars had to be his first priority.

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[101] Dale, Michael. "How we rebuilt Jaguar in the US". *Fortune*. 28 April 1986. p110.
[102] *Idem.*
[103] John Grant Interview. *Appendix* p90.
[104] Underwood. *op cit* p73.
[105] *Ibid.* p72.
[106] *Ibid.* p74.

7.6.2 Resolving the Quality and Reliability Problem: Restoring the Quality

The subsequent actions undertaken by Jaguar under Egan's direction were well publicised by the company and have been well documented. As a result, the Jaguar account has become accepted as fact. According to the version related by Egan to the Automotive News World Congress, when he took over Jaguar he discovered "far too many complaints from customers and dealers" about quality and reliability, and set about ascertaining the nature and extent of the problems through a research programme which interviewed hundreds of Jaguar owners, and competitive car owners. [107] The replies, according to Egan, were correlated with Jaguar's own warranty statistics (which given that Jaguar had no warranty data, as revealed in Section 7.3. above, was another example of Jaguar creating an illusion of professionalism) and from this some 150 faults were discovered, 60% of which were attributed to suppliers, although this is a figure that is subject to considerable debate (see Section 7.8 below).

As a result, Egan set up multi-disciplinary "task forces" to deal with the various problems, and got suppliers to agree to not only pay for replacement parts but also the dealer costs of replacing them. Assembly line problems were addressed, "workers and managers who consistently failed to achieve the high quality standards...were dismissed"[108], and, most importantly of all, the paint problems were resolved following Jaguar taking over the Castle Bromwich factory, and the discarding of the low-bake paint system.[109] Indeed, Whyte cites Beasley as opining that the successful integration of Castle Bromwich into the Jaguar system was essential to Jaguar's survival.[110] With the aim of involving the workforce in the quality improvement programme, video programmes were used to communicate various issues, and Quality Circles, discussed in Section 6.9 above, were introduced. The end result of all these measures according to Thorley was "dramatically improved quality", and a resolution of delivery problems[111], with Egan claiming in August 1982 that, "95% of production is now on time"[112], although this claim may well have been merely rhetoric.

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[107] *Automotive News*. 30 August 1982.
[108] *Idem.*
[109] Thorley *op cit* p136, Whyte *op cit* p176.
[110] Whyte. *op cit.* p176.
[111] Thorley *op cit* p137.
[112] *Automotive News*. 30 August 1982.

7.6.3 Resolving the Quality and Reliability Problem: Restoring the Image

Having set about re-establishing quality the next thing was to re-establish the image of Jaguar as a high quality, reliable product. Here, Egan adopted the tactic of directly facing up to the quality issue, admitting the severity of the problems, but rather cleverly masking the in-house problems by placing much of the blame on the component suppliers, and then assuring the world that such problems were being resolved. The continual promulgation of the quality improvement message was effective for, as *Automotive News* was later to remark, "He [Egan] had the sense to realize that if you keep talking about quality, people will eventually believe you have a quality product".[113] Key was the US market, and the beginning of the turnaround here was marked by the visit of the US Jaguar dealers to Browns Lane in June 1981, related in Sub-Section 5.6.2 above. To reinforce the quality story in the USA an improved warranty, of 36,000 miles, or two years, was introduced in April 1982, and increased advertising emphasised quality.[114]

Quality was also a constant feature of Jaguar's Annual Report and Accounts, the first Annual Report following privatisation proclaiming: "Consistent achievement of higher quality standards, reflected by fewer warranty claims per car, signify progress in the quality and reliability of our vehicles.....Major improvements to our product quality and reliability were the key to our recovery five years ago".[115] However, the figures which formed the basis for such statements were not supplied. A similar message was broadcast in the 1985 Annual Report which stated that, "Jaguar's drive to improve quality and reliability continued during 1985 and this was reflected in a further reduction in the number of faults per car reported by customers".[116] This statement seemed to be supported not only by Jaguar's increased sales, particularly in the USA, but also by Jaguar's considerably improved ratings in the J D Power Customer Satisfaction surveys, recorded in Sub-Section 5.6.4 above.

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[113] *Automotive News*. 2 April 1990.
[114] *Automotive News*. 26 April 1982.
[115] Jaguar Annual Report and Accounts 1984. p13.
[116] Jaguar Annual Report and Accounts 1985. p12.

7.6.4 Resolving the Quality and Reliability Problem: The Reality

Statements in the Annual Reports and Accounts, and the progressively lower warranty costs, seem to affirm the resolution of the reliability problem, but much appeared to be a product of Jaguar's PR effort. Certainly, whilst Jaguar did resolve a number of the quality issues it faced in 1980, the extent to which it made any significant progress is open to a great deal of debate, for as *Automotive News* commented in regard to the Series III, "The reality was that Jaguar's quality improved from poor to mediocre. The company was never going to have the cash to 'engineer' its way out of the bad quality hole".[117] The crucial paint issue was resolved, as noted above, resulting, in Grant's view, in "very good paint quality", but, according to Grant, "most of the rest of it was bullshit. The quality of the Series III was never very good".[118] Beasley indicated some sympathy with this sentiment, but was not as harsh in his comments, maintaining that, "We got the Series III to be a more credible car. It wasn't a very brilliant car, but it was a more credible car".[119]

There is a considerable amount of anecdotal evidence available regarding quality problems at this time, and it is apposite to mention certain specific examples to illustrate some of the points referred to above. In regard to suppliers, Dale cites the problem with the Borg Warner transmission on the Series III which "was good for 30,000 miles, but after that you were living on borrowed time", noting that this was something Jaguar had to live with since, "there was no way we could have afforded to engineer a new one".[120] It is problematic, however, whether this difficulty emanated with the component supplier, or whether it resulted from Jaguar's original specification, an issue which is further discussed in Section 7.8 below. Dale also cited the incidence of what Jaguar Inc referred to as "UTEs" (Underhood Thermal Events), as an example of engineering faults. The problem here resulted from the introduction of the fuel injection system on the Series III V12, Dale relating that:

> Jim [Randle] took something that had five pounds [psi] fuel pressure and took it up to thirty pounds, and they did it all with hand clamps. We had all these joints with jubilee clips around them and the vibration would cause leaks, and the fuel would pull in between two of these. Sooner or later there would be something that

[117] *Automotive News*. 2 April 1990.
[118] John Grant Interview. *Appendix* p90.
[119] Mike Beasley Interview. *Appendix* p8.
[120] Mike Dale Interview. *Appendix* p36.

> would set the fuel off.....They became known as "UTEs", for "Underhood Thermal Events". There were two or three recalls while they [Jaguar engineering] tried to fix it all with the hose clamps. In the end they had to bolt it together like everybody else does it. You can't really, if you don't have thirty or forty hose clamps, run thirty pounds pressure.[121]

Finally, there were reliability issues that Jaguar "never recognized", Scheele providing the example of the fuel pump problem on the Series III, the temperature extremes in the Middle East and in the southern USA causing cavitations (the formation of bubbles, or a vacuum, in the fuel, resulting in engine misfiring, or shuddering). The local agents solved the problem themselves by replacing the fuel pump with one that could withstand the temperature regimes.[122] It is of note that engineering featured, either directly, or because of its part in component specification, to some degree in each of these examples. Generally, defective parts gave the least problem as in many cases they could be easily replaced, as Weidinger testified[123], and, as Table 7.1 shows, they generally accounted for a relatively small proportion of total warranty costs. Design-originating faults, on the other hand, were the most costly to rectify, and often the costs of re-engineering would be prohibitive.

7.6.5 The Paradox of Improved Customer Satisfaction Ratings at a time of Continuing Quality Issues

Despite the apparent resolution of the problems, there remained significant quality issues with the Series III, a statement that appears to be difficult to reconcile with the improving JD Power Customer Satisfaction Survey ratings. Obviously, customer perception now was that Jaguar had improved its quality and reliability, but, equally, if the reality did not match this perception then the poor reputation would again become paramount, as was to happen later with the XJ40. However, whilst the quality of the Series III did not improve that much, the customer satisfaction ratings continued to climb. There are three factors which help to provide an answer to this apparent paradox.

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[121] Mike Dale Interview. *Appendix* p38.
[122] Nick Scheele Interview. *Appendix* p131.
[123] Jake Weidinger Interview *Appendix* p145.

First, the limited improvements in quality, magnified by the significant public relations and advertising efforts given to these, backed, for example, by the better warranty offered in the USA, seemed to be sufficient to convince people that Jaguar's quality actually had improved significantly. Jaguar's PR activity was particularly vigorous and press comment regarding Jaguar after 1981 was invariably positive, thus reinforcing the message of Jaguar's rejuvenation. In Scheele's view the effect of the PR campaign was reinforced by the management's arrogance, which also masked the reality:

> John [Egan] believed that the quality had improved. When he took over and took it private, the quality was appalling. But he then had a quality push and said that it was better. And the Series III did get a bit better, but not very much better in reality. But he believed his own PR because he went out and told everyone that Jaguar quality was now the best in the world etc etc. [124]

Second, there was the fact that customers were prepared to trade-off factors such as quality against other attributes. Here, a slight improvement in quality, and reputation, might be sufficient to make such a trade-off attractive. Grant certainly supported such an assessment, commenting that Jaguar had:

> got to a point where by British standards the Series III was acceptable. By international standards it really wasn't a strong competitor, but because it was so beautiful-looking people forgave it. It was a very unique car. It had this fantastic ride, it had this lovely silky engine, particularly in the V12, and the car looked fabulous. It was unique and everybody fell in love with it so they forgave its quirks. But it had lots of quality problems when you look.[125]

Adding support to this analysis, Bennett, commenting on the US market, opined that, "There was always something that was a little bit different about Jaguar. It had a cachet. People dreamed of owning a Jaguar.....and it was its "Britishness" that people were enamoured with. So, they bought a car that was far from perfect".[126]

Third, and certainly the most important factor in regard to the US market, was the part played by the dealers, as discussed in Chapter Five above. As a result of dealer

[124] Nick Scheele Interview. *Appendix* p130.
[125] John Grant Interview. *Appendix* p90.
[126] Martin Bennett Interview. *Appendix* p12.

action, customer satisfaction ratings rocketed, reflecting the vastly improved service levels, rather than any significant improvements in the quality of the cars themselves. As *Automotive News* pointed out in retrospect: "Egan realized that dealers must be able to offer the highest standard of service. Then, if there were faults, customers would not be perturbed".[127] If this view was correct then Egan may be seen to have been echoing Iacocca who, in the mid 1970s, when still at Ford, confessed that Ford aimed at creating "a dealer organization that will fix up the cars and guarantee that they'll function right".[128] Here, Iacocca "was admitting that Ford .... was pushing onto the dealers the burden of supplying customers with an acceptable car".[129] However, there is no evidence of Egan appreciating the effort expended by the US dealers in this regard, Egan stating that, "The US dealers didn't really expect to do very much to the car, and they didn't!"[130] But, on the contrary, Bennett recalled that in regard to the Series III:

> As a dealer we used to have to do a lot to the car - what was supposed to be a pre-delivery inspection was actually a partial re-build. It was quite amazing. I always remember in the last year of the car, 1987, we were actually putting lead on the left rear door sill because the tooling at that point was so worn out that you couldn't get a rubber seal big enough to actually stop the wind noise so we would build it up by putting a quarter of an inch of lead in there and paint it, and put a brand new carpet in to cover it.[131]

But, as Dale admitted, whilst such action was possible with the Series III, the problems with the XJ40 were just too overwhelming.[132]

7.6.6 The Triumph of Illusion and its Consequence

It is apparent that Jaguar's PR effort created a powerful image in regard to improvements in vehicle quality and reliability, but much of this restored reputation turned out to be illusion. Consequently, Jaguar had to pay a high price for its PR success, as did many of its US dealers, a number of whom became bankrupt, as mentioned in Sub-Section 5.6.5 above. A major problem, noted in the previous section, was that Jaguar's management

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[127] *Automotive News*. 2 April 1990.
[128] Halberstam. *op cit*. p461.
[129] *Idem.*
[130] John Egan Interview. *Appendix* p74.
[131] Martin Bennett Interview. *Appendix* p12.
[132] Mike Dale Interview. *Appendix* p40.

appears to have suffered the delusion that such improvements were real and, as a result, failed to address many of the underlying causes of the problems with its vehicles. Certainly, it is fairly obvious that Egan's much lauded commitment to quality control was little more than an emphasis upon superficial and expedient measures instead of sound engineering and manufacturing methods. Moreover, the preoccupation with increased output apparently often led to lower quality standards than Egan claimed. This would become abundantly clear with the US launch of the XJ40 which Beasley described as being "a huge rude awakening for all of us".[133]

7.7 The XJ40 - The Nadir of Jaguar Quality and Reliability

The improved image that Jaguar enjoyed by the mid-1980s, enhanced by its successful privatisation and PR, engendered expectations that the new car was going to be wonderful, *Automotive News* confidently announcing that, "the model's true significance is that it will enable Jaguar to reach the customer satisfaction and dealer quality levels achieved by Mercedes-Benz, the industry's leader and Jaguar's big rival".[134] Jaguar believed it had good cause to be comfortable with such statements since the car "was the most tried and tested ever produced by the Company", having covered 5.5 million miles of road proving[135], and had been well received by the motoring press.[136] However, all the road testing had been undertaken using hand-built prototypes, and the cars test-driven by the press had also been hand-built[137], the favourable press comment leading to management delusion[138] for the production models proved to be of greatly inferior quality. Indeed, the XJ40 was, as Grant noted, a car that suffered "appalling quality. It was terrible in virtually every respect".[139] Other Jaguar or Ford executives were equally condemnatory in their comments, Edwards describing the car as "a dog"[140], Dale remarking that the "XJ40 wasn't just bad, it was stunningly bad!"[141], and Scheele that

[133] Mike Beasley Interview. *Appendix* p8.
[134] *Automotive News*. 6 April 1987.
[135] Jaguar XJ40 Launch Press Release. 8 October 1986.
[136] John Edwards. Interview with the Author. November 2002. *Appendix* p53.
[137] Daniels, Jeff. *Jaguar. The Engineering Story.* (Yeovil, 2004). p164.
[138] John Edwards Interview. *Appendix* p53.
[139] John Grant Interview. *Appendix* p90.
[140] John Edwards Interview *Appendix* p53.
[141] Mike Dale Interview. *Appendix* p34.

"the XJ40 nearly brought the company to its knees, and should have done actually".[142]

The problems with the car were wide-ranging and deep-rooted, owing much to what Putnam referred to as "a combination of design faults", due to the fact that, "the car wasn't properly engineered".[143] This view was supported by Scheele who, as previously noted, was adamant that, "the problems on the XJ40 were very largely engineering in nature. They were in-house"[144], and Edwards who scathingly remarked that, "Jim Randle put his efforts into engineering cars that didn't bloody work".[145]

Apart from design faults there were other engineering-originating problems, the most fundamental one, noted in Sub-Section 4.3.1.2 above, being that engineering did not talk to manufacturing, and vice versa, so that manufacturing considerations were not taken into account in the design.[146] This resulted in a car that was unsuited to assembly line production, or, as Edwards believed, "couldn't be built. It was not developed enough from a manufacturing point of view".[147] This situation was exacerbated by the fact, that after the launch of the XJ40, "manufacturing couldn't get the engineers to re-engineer the product for assembly feasibility".[148] Dale adds that another major problem was that Randle had no training in producing a car for production[149], whilst Edwards blames also the fact that Jaguar's management generally suffered a lack of experience in launching new cars, the last previous launch having been that of the XJ-S in 1975.[150] Engineering also failed to specify adequate or appropriate tolerances for component parts.[151] There undoubtedly were problems arising from the deficiencies of Jaguar's three plants, but these, according to Scheele, were self-contained, and, as with any issues with component supply, could be resolved, as Ford was later to demonstrate.[152]

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[142] Nick Scheele Interview. *Appendix* p130.
[143] Roger Putnam Interview. *Appendix* p119.
[144] Nick Scheele Interview. *Appendix* p130.
[145] John Edwards Interview. *Appendix* p61.
[146] Nick Scheele Interview. *Appendix* p130.
[147] John Edwards Interview. *Appendix* p56.
[148] Nick Scheele Interview. *Appendix* p130.
[149] Mike Dale Interview. *Appendix* p34.
[150] John Edwards Interview. *Appendix* p59.
[151] Nick Scheele Interview. *Appendix* p131.
[152] Nick Scheele Interview. *Appendix* pp129-30.

Dale complained that the XJ40 deficiencies embraced:

> everything from door handles, door motors, windows, the bodywork didn't fit, the wind noise was horrendous, to the self-leveling suspension – absolutely bloody hopeless: it seized up, it collapsed. The windows wouldn't work, the door locks gave up, the doors wouldn't shut because they didn't fit, and we were plagued with wind noise and water leaks.[153]

A major problem was caused by the batteries going flat if the vehicle was left for more than a few days, Dale recounting that, "A lot of our vehicles were owned by people who traveled and left their cars at airports and came back to find the car immobilized".[154] As related in Section 7.3 above, Jaguar Inc later catalogued over 250 things that they knew were wrong with the car that they simply couldn't fix because "there just wasn't time, there just wasn't the engineering ability".[155]

Scheele identified four main packages of problems still bedeviling the XJ40 in 1992: water leaks; paint finish; windshield; electrics.[156] Of these, only paint finish was not a product engineering-related problem, and it is useful to provide some further illustrations of the problems arising from faulty engineering.

Water leaks was the main issue, which Scheele stated came as no surprise, having discovered that, "nearly 90% of all cars didn't first time go through the water test". Whilst it would have been easy to blame the weatherseal supplier, the reality was that the door gaps were not right, the door opening was not right, and therefore the flanges and the seal system had to be redesigned. Whilst engineering initially stated it could not be fixed, it was done eventually.[157]

Another significant problem, mentioned in Sub-Section 4.3.1.2 above, and which "gave rise to significant customer complaints", concerned the windscreen. This resulted from there being only one wiper, the actual wiper mechanism lifting off the window at higher speed. It was a problem that, according to Scheele, got, "a hell of a lot better by getting a more forceful and better aerodynamically tuned wiper blade" but

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[153] Mike Dale Interview. *Appendix* p34.
[154] Mike Dale. e-mail to the author. July 2007. *Appendix* p34n35.
[155] Mike Dale Interview. *Appendix* p34.
[156] Nick Scheele Interview. *Appendix* p131.
[157] Nick Scheele Interview. *Appendix* pp131-32.

which continued to be a problem until "we got rid of the single wiper blade".[158]

Dale provides a measure of the scale of the immediate problem, relating that in the USA Jaguar offered a free breakdown towing service for the XJ40, and that in the first year "We towed 40,000 times. In theory we towed every single vehicle twice".[159] The impact of such reliability problems on Jaguar's reputation was dramatic, and devastating, as was the effect on financial performance, as discussed in Chapter Eight below. In the 1988 JD Power Consumer Satisfaction Index Jaguar fell to 18th place, being overtaken by Lincoln, BMW, Volvo, Audi, and Saab, all of whom were below it in 1987.[160] By 1992 Jaguar had fallen to 35th place, Scheele wryly noting that it was "kept out of last place by that stellar European import called Yugo. That is how bad it was."[161]

Following the realization of the problems with the XJ40, it "was all hands to the pump in terms of design changes, manufacturing process changes here, extra checks there, to try and manage the outcomes better, and get stuck into the suppliers parts that were giving major problems".[162] For the US, a package of thirty or forty "fixes" was organized for the dealers to install, Dale informing them that, "Look, you know what a screw-up we've got, now we've got to dig ourselves out with the customers. We're going to have to bring every single car back in, we've got to handle this thing right, we've got to put the car right".[163]

Despite such actions, quality remained the major issue at the time that Ford acquired Jaguar. Grant provided a measure of the scale of the problem, relating that Ford found that when it started applying to Jaguar its Uniform Product Assessment Systems (UPAS), which measured quality according to the number of demerits per one hundred cars, new highs were recorded. This was a measure of quality as perceived by the customer – visible items, things that were working or not working – and weighted by the severity of the problem. So, the higher the score, the greater the quality problem overall. Whilst a Ford Scorpio would typically score 250-300 points, and a Lincoln Continental perhaps 300-350 points, Jaguar, Grant noted, "was coming out with scores of about

[158] Nick Scheele Interview. *Appendix* p132.
[159] Mike Dale Interview. *Appendix* p33.
[160] *Automotive News*. 8 August 1988.
[161] Nick Scheele Interview. *Appendix* p131.
[162] Mike Beasley Interview. *Appendix* p9.
[163] Mike Dale Interview. *Appendix* pp41-2.

2,500, whether it was an XJ-S or an XJ40. The old Series III, which was still being manufactured, was the best, it was better quality than the other two cars, but was still up around the 2,000 mark".[164]

Although the more radical action undertaken by Hayden in the first two years of Ford's ownership of Jaguar resulted in the UPAS score falling to 450 points, Hayden, of necessity, had had to focus on the more immediate issues of assembly and workmanship, introducing process management and process discipline. But, as Scheele related, and which has been noted above, many design faults, which would not be necessarily apparent to a customer, remained, testifying to the primacy of Jaguar's product engineering in the problem of quality and reliability.

7.8. The Supplier Issue

As shown in Sub-Section 7.6.2 above, in seeking to rehabilitate Jaguar's reputation in the early 1980s, Egan promoted an image of much of the blame for poor quality and reliability being due to sub-standard components supplied by outside firms, these being responsible for 60% of all Jaguar's quality problems. "Outside firms" here include Pressed Steel Fisher which supplied body and paint from its Castle Bromwich plant, and which accounted for some 16% of the imported cost of the car (that is, some £800 of the £5,000 total imported cost in 1980).[165] Egan was being somewhat disingenuous in this regard since, for much of 1980, Castle Bromwich may not have been under the control of Jaguar, but was, in fact, part of BL, as was Jaguar, and therefore could equally be regarded as an internal supplier. Even so, body and paint notwithstanding, Jaguar at this time had very little internal data on which to base such accusations regarding its suppliers, and such claims have to be regarded, in part at least, as a PR tactic to focus the blame away from the real issues. Indeed, Bob Dale dismisses the 60% figure as being "John Egan speak"[166], and given that Lucas was the single largest truly external component supplier, by number of components and by overall value, to the Series III, such a view has to be taken seriously. Scheele, broadly agreeing with Dale, argues that it is always difficult to be precise about the cause of quality problems stating that, "we

[164] John Grant Interview. *Appendix* p91.
[165] John Edwards. e-mail to the author, 18 July 2007.
[166] Bob Dale. Interview with the author. May 2007. *Appendix* p28.

loosely attribute: we say a third of the problems are assembly, a third are engineering, a third are component manufacture".[167]

That all Jaguar models suffered some quality problems resulting from component supply issues is beyond doubt, but their nature and magnitude is uncertain. Component suppliers had their own manufacturing problems, and there were many instances of components that simply failed to work, or could not meet the required reliability standards[168], but, as Scheele pointed out with regard to the XJ40, "if these had been the only issue we could have sorted them out". The more intractable problems with components resulted from inappropriate or inadequate specifications, faulty design, or cost considerations.

Bob Dale observed, echoing the example of the fuel pump cited in Sub-Section 7.6.4 above, that Lucas electrical equipment on the Series III in North America was notoriously unreliable, the problem in part being that it was having to put up with temperature changes which were never experienced in Britain, and which were not allowed for in the specification, failing to take into account that some Lucas equipment was temperature sensitive, or suffered water ingress problems.[169] On the XJ40 Bob Dale attributed component problems to Jaguar's failure to provide exact specifications, or to require numerous changes, recalling that, "the component industry was constantly faced with post-production changes in specification. It was a nightmare, especially in the early '80s. Talk about Oops! Only three months into production and 'we want this and that changed'".[170] Jaguar was fortunate in that a number of component companies, particularly some of the larger ones, were prepared to accommodate any such behaviour given that the quantities it purchased were tiny in motor industry terms – "a measly 50,000 vehicles [a year]".[171] In this regard, Mike Dale observed that, "the people who did the air conditioning/climate control, some French company, were learning as they went along".[172] Mike Dale also cited an example of Jaguar's cost considerations resulting in quality problems: "I said to Lucas once that the windscreen motors were inadequate, and

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[167] Nick Scheele Interview. *Appendix* p130.
[168] Mike Beasley Interview. *Appendix* p7.
[169] Bob Dale Interview. *Appendix* p28.
[170] Bob Dale Interview. *Appendix* p30.
[171] Bob Dale Interview. *Appendix* p30.
[172] Mike Dale Interview. *Appendix* pp46-47.

they said 'Yes, they are, but you won't pay for the ones we recommend'".[173]

Bruce Blythe, Ford Vice President and an alternate director of Jaguars Cars from 1990 onwards, whilst not impressed with the quality of components supplied to the XJ40, came to appreciate that it was much more a Jaguar originating problem:

> Supply quality was lousy, and yet when you went to the suppliers and really started to raise the roof about them not building parts to specification it became pretty clear that if they built to specification you couldn't put the car together. It was engineered so loosely that they had accommodated the engineering deficiencies by modifying the parts on an informal basis so, when you were trying to hammer them on the head saying you've got to have better quality, better prices, better productivity, and you've got to build to specification, they were saying 'Yes, okay, I'll do that, but what happens to your cost curves? You won't be able to build anything'.[174]

7.9. Summary and Conclusions

Whilst problems with quality and reliability had always been an issue for Jaguar, as with nearly every other motor manufacturer, it is clear from the preceding analysis that the considerable quality problems that existed in 1980 were the product of a long established corporate ethos. Consequently, Egan's failure to recognise and address the weaknesses in Jaguar's manufacturing and engineering institutional structures only served to exacerbate the underlying problems of institutional dysfunction and inadequate corporate resources. As a result, Jaguar's quality problems were not resolved to any great extent during the first half of the 1980s, and reached a nadir with the launch of the XJ40. Far from achieving new standards of excellence, the products built during Egan's era, in the view of Hamish Orr-Ewing, Jaguar's Chairman at the time of the flotation, and a long time Jaguar enthusiast, were "the most unreliable and unsatisfactory in the history of the company".[175]

As has been demonstrated, whilst the quality and reliability problems resulted from deficiencies across all aspects of the Jaguar operation, the fundamental problem lay with Jaguar's own product engineering department. But, given that engineering was permitted to operate in autonomous isolation, with no management checks and controls to

[173] Mike Dale Interview. *Appendix* p47.
[174] Bruce Blythe. Interview with the author. January 1994. *Appendix* p26.
[175] Hamish Orr-Ewing. Interview with the author. November 2002. *Appendix* p115.

ensure that it was doing what it should have been doing, it was a problem that was not recognised until after the launch of the XJ40. Indeed, given the enormity of the problems with the XJ40 it was a problem that could no longer be denied. Even so, the quality problems that were the product of design faults, resulting from inadequate engineering resources, and weaknesses in engineering capability, could not be easily put right, and many remained unresolved.

It is apparent that the public belief in the rejuvenation of Jaguar from 1982 onwards was very much a triumph of style over substance, the initial *mea culpa* tactic adopted by Egan of facing the quality issue head-on, admitting the severity of the problems, but blaming component suppliers, cleverly masked the in-house problems which would have been much less easily understood by Jaguar's customers. However, as has been argued in this chapter, the success of this policy led to complacency, Jaguar's management at the time appearing to have suffered from the delusion that they had resolved the quality and reliability problems.

Having successfully laid the blame at the door of the component suppliers once, it was hardly an option that was open with regard to the XJ40 as to have done so would no doubt have called into question the competence of the Jaguar management. Indeed, Jaguar could not admit publicly that its much heralded, and greatly tested, new model was a quality disaster. As Blythe put it, "What was Egan's choice? To tell you 'I'm running a wreck'?"[176] To have done so would undoubtedly have led to a complete collapse of confidence in the company, and would have been the precursor to calling in the receivers. The only realistic alternative course open to Jaguar was that of trying to resolve the quality problems as best it could whilst using its strong PR capability and its dealer network to mask the reality of dramatically reduced product reliability.

That the Egan management was only partially successful in this strategy is readily apparent. Whilst a number of the superficial and more "quick fix" issues were resolved, many of the problems resulting from design errors were basically "unfixable". Jaguar, however, was successful in terms of the illusion it maintained regarding the high quality of the XJ40. Although the sales of the car plummeted in the all-important US market, Jaguar masked these, as reported in Sub-Section 5.6.5 above, by blaming the

[176] Bruce Blythe Interview. *Appendix* p19.

overall decline in demand for luxury cars, and the strengthening US Dollar. With little or no comment regarding quality problems appearing in the press at the time, the public image of the company and of the XJ40 remained untarnished. Indeed, it is remarkable that Jaguar was able to maintain this illusion long after the XJ40 ceased production, as Mike Dale demonstrated with the following statement:

> I saw a piece in a magazine only a few years ago that said "The XJ40 – the car that saved Jaguar" on the front cover. I looked inside, and there was a big picture of Jim [Randle]. They'd gone to Jim, and Jim had told them what a wonderful car it was. But it was a heap of crap! It bankrupted us![177]

[177] Mike Dale Interview. *Appendix* p37.

CHAPTER EIGHT

THE FINANCIAL PERSPECTIVE

8.1 Introduction

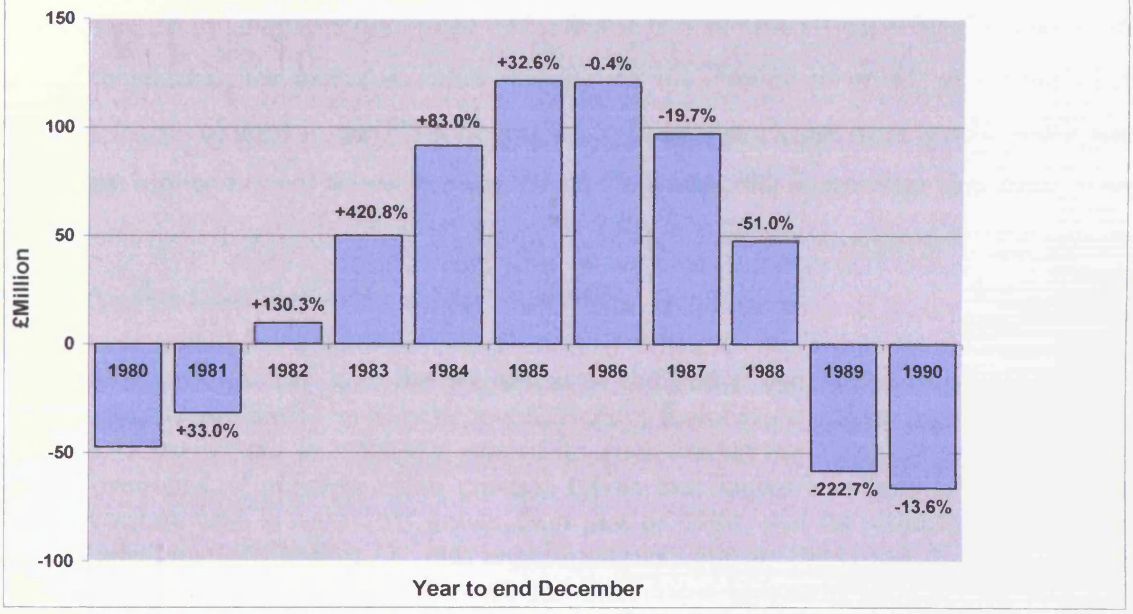
Tables 4.1, 4.2, and 4.3 above showed the changes in Jaguar's profits over three clearly defined phases of its history during the Egan era, and Chapters Four to Seven examined the individual factors involved. Profits represent the difference between a company's revenue, or turnover, in a particular period and the costs of achieving that revenue in that same period, so the success of a company is judged not only by its ability to increase sales but also by its ability to keep control of costs, hence ensuring that profits rise in some proportion to its sales. As is apparent from Tables 4.2, and 4.3, and Figure 8.13 below (see page 375), Jaguar's profits after 1985 did not rise in proportion to its sales but, on the contrary, declined whilst sales increased.

The purpose of this present chapter is to provide an explanation for this outcome through a quantitative analysis in financial terms of the impact on Jaguar's profits of the various factors previously discussed in this thesis, and hence to test the validity of Jaguar's arguments regarding the reasons for its declining profits. Section 8.2 reviews Jaguar's profit record, summarised in Table 8.1 (page 357), the main elements of which are examined in Sections 8.3 and 8.4. Section 8.3 examines revenue aspects, the main factors here being sales volumes (Sub-Section 8.3.1), US pricing (8.3.2), and currency (8.3.3). Costs are examined in Section 8.4, the main elements here relating to employees (8.4.1), administration (8.4.2), distribution (8.4.3), purchasing (8.4.4), research and development (8.4.5), depreciation (8.4.6), and warranties (8.4.7). Finally, Section 8.5 examines Jaguar's cash flow position and questions whether Jaguar's management was deluding itself in regard to the arguments it was putting forward about the strength of its cash position.

8.2 Profit Record

Whilst pre-tax profits have been the most widely accepted measure of the results of a company's activities, since they provide a quick and easy gauge of performance, they are open to manipulation of various kinds, for, as Smith pointed out, "profits are no more than 'an opinion' – the result of the accountants 'true and fair view'".[1] At best, therefore, pre-tax profits *per se* are a very unsatisfactory guide. To arrive at a meaningful measure of performance, an analysis of the different items that are used to create the actual pre-tax profit figure is necessary. This is particularly true given the pattern of Jaguar's profits just before and during its period as a publicly quoted company, as shown in Figure 8.1.

Figure 8.1: Pre Tax Profit (£million) and Year-on-Year % Changes, 1980 to 1990



Source: Jaguar Annual Reports and Accounts 1984 to 1990; Jaguar Offer for Sale document 1984.

Jaguar's profits recovery and growth in the period 1980 to 1985 was attributed by Egan to "improved quality of the car; better productivity; and an improved distribution system".[2] However, it has to be acknowledged that the apparent resolution of these problems, whilst important, merely facilitated the profits recovery, and that it was

[1] Smith, Terry. *Accounting for Growth*. (London, 1992). p6.
[2] *Automotive News*. 6 October 1986.

the coincidence of the emergence from recession of the important US market with the strengthening of the US Dollar that resulted in Jaguar's continuous profits improvement in this period, as discussed in Sub-Section 8.3.3 below.

If it was this coincidence of circumstances that propelled Jaguar's profits advance in the first half of the decade, it was the reversal of these factors that, according to Jaguar, produced the decline in its profits in the second half of the decade. The resultant pattern produced in Figure 8.1 demonstrates a near symmetry which is not altered by the fact that there were one-off launch costs (£11million in 1986, £20million in 1987) charged against profits resulting from the introduction of the XJ40. Jaguar's explanation for the downturn, being that of adverse currency movements and falling US demand from 1987 onwards, tended to be accepted at the time, and since, by a variety of commentators, including many City analysts and journalists, examples of which are cited in footnote 28 in Chapter Four (page 112). But it is a somewhat superficial explanation, failing to address, for example, other reasons for the decline in profits at a time when Jaguar's sales volumes in the USA continued to be at historically high levels, and it was achieving higher prices. Some commentators, however, did appreciate that there were more deep-rooted problems, an investment circular from the stockbroker Barclays de Zoete Wedd at the end of 1988 commenting that:

> We are told that it is the weakness of the dollar that is the cause of Jaguar's current problems – it may be a contributory factor but consider Jaguar's profits of £91.5m pre-tax in 1984, the year of its stock market flotation, against current year estimates of perhaps £45m pre-tax. Given that Jaguar's hedged US$ rate in the current year is only 15% lower than that of 1984, that its projected US volume sales are 16% higher (21,000 units against 18,000 in 1984) and that Jaguar's US retail prices are some 35% higher than 1984 it would appear that the US$ exchange rate is merely a convenient whipping boy. The truth seems to be that Jaguar's cost base has got out of control, its labour relations and productivity continue to cause problems, and that its marketing planning has fallen short, especially with regard to the US market.[3]

Even so, it is noticeable that there was no mention of the quality issue, perhaps testifying to the success of Jaguar's PR effort in masking this problem.

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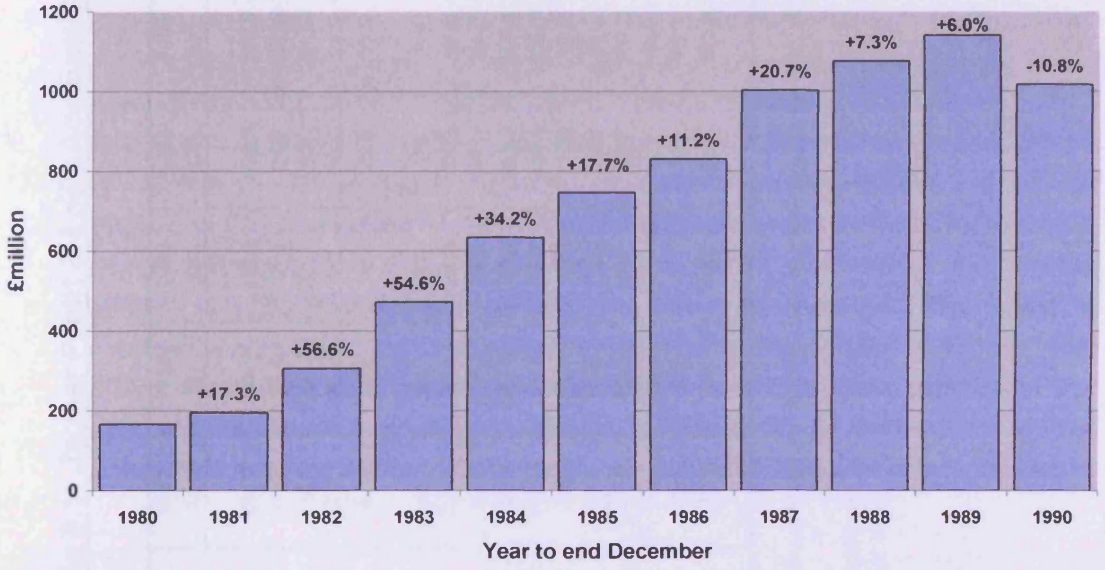
[3] Barclays de Zoete Wedd Investment Circular. 9 December 1988.

The main elements in Jaguar's profit and loss account are shown in Table 8.1, and the following two sections provide an analysis of the various factors involved.

8.3 Revenues

From the nadir of its fortunes in 1980, Jaguar enjoyed nine consecutive years of growth in sales revenues, producing a seven-fold increase in this period, from £166.4million in 1980 to £1,139.7million in 1989, as shown in Figure 8.2. This amounted to an average annual gain of 31%.

Figure 8.2: Turnover (£million) and Year-on-Year % Changes, 1980 to 1990



Source: Jaguar Annual Reports and Accounts 1984 to 1990; Jaguar Offer for Sale document 1984.

As with all companies, Jaguar's sales revenues were determined by the volume of product sold multiplied by the prices achieved. In terms of products, the main items were motor vehicles, although some 8% of sales related to parts, and there was also a very small element of revenue derived from the supply of the J60 motor engine for military armoured vehicles. For the purpose of this analysis, revenues from parts and military engines are ignored since it can be reasonably assumed that parts were a constant proportion of turnover, and military engine sales were so minor as to be of little consequence. Two other factors affecting changes in revenues are those of the sales mix

Table 8.1: Jaguar Profit & Loss Account 1980 to 1990

Year to end December:	1980 £m	1981 £m	1982 £m	1983 £m	1984 £m	1985 £m	1986 £m	1987 £m	1988 £m	1989 £m	1990 £m
Turnover	**166.4**	**195.2**	**305.6**	**472.6**	**634.1**	**746.5**	**830.4**	**1002.1**	**1075.5**	**1139.7**	**1016.1**
Production Labour Costs	N/A	N/A	53.4	67.5	84.5	102.2	123.8	149.6	162.4	167.6	170.2
Purchasing Costs	112.2	116.3	154.8	225.6	292.1	332.8	381.1	493.0	557.8	658.3	580.7
Depreciation	5.6	7.3	6.4	8.6	10.4	14.9	28.9	44.2	58.9	71.0	63.8
Research & Dev	5.2	9.8	12.8	16.5	23.0	35.0	35.2	50.4	55.7	52.5	54.9
XJ40 launch Costs							11.0	20.0			
Other Op Costs	n/a	n/a	0.7	0.8	1.5	8.9	9.1	7.9	5.1	2.6	4.3
Warranties*	15.0	14.0	21.0	28.0	36.0	53.0	50.0	47.0	73.0	128.0	88.9
Balance of Costs**	52.1	49.7	13.3	35.4	47.6	31.0	7.1	20.8	32.5	35.8	21.4
Total Cost of Sales	**190.1**	**197.1**	**262.4**	**382.4**	**495.1**	**577.8**	**646.2**	**832.9**	**945.4**	**1115.8**	**984.3**
Gross Profit	**-23.7**	**-2.1**	**43.2**	**90.2**	**139.0**	**168.7**	**184.2**	**169.2**	**130.1**	**23.9**	**31.8**
Distribution Costs	7.3	7.8	13.8	13.3	18.0	19.7	20.6	23.9	28.0	26.1	23.7
Admin Expenses	8.1	11.2	14.8	22.0	34.3	41.2	56.8	60.7	62.7	62.6	69.7
Operating Profit	**-44.3**	**-30.9**	**10.1**	**51.1**	**86.7**	**107.8**	**106.8**	**84.6**	**39.4**	**-64.8**	**-61.6**
Related Cos	n/a	n/a	n/a	n/a	0.2	0.4	0.1	1.0	2.9	2.9	1.3
Net Investment Income	-3.0	-0.8	-0.5	-1.1	4.6	13.1	13.9	11.4	5.2	3.6	-5.9
Pre Tax Profit	**-47.3**	**-31.7**	**9.6**	**50.0**	**91.5**	**121.3**	**120.8**	**97.0**	**47.5**	**-58.3**	**-66.2**

Notes:

Figures in black are given in the Offer for Sale document and Annual Reports and Accounts, or from other sources. Figures in blue are computed or estimated from information provided.

* Actual Warranty figures supplied by John Edwards.

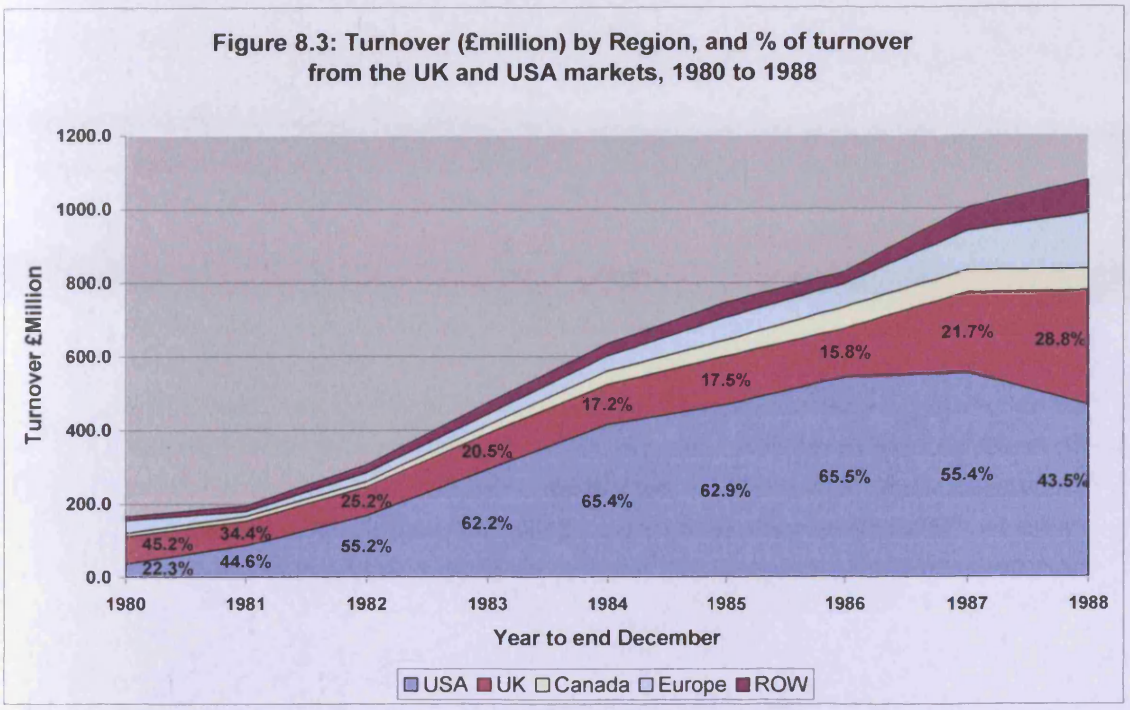
** In 1980 and 1981 includes production labour costs

and the geographic mix. Changes in the product sales mix would alter overall revenues, with, for example, an increased proportion of higher priced vehicles such as the XJ-S Grand Tourer, or the Daimler Sovereign, providing a boost to revenues. However, given that little information has been made available about changes in the product sales mix, this aspect cannot be quantified from available information, and it has to be assumed, for the purpose of this analysis, that, taken in isolation, variations in this element will have a neutral effect on, or cancel out each other in relation to, changes in sales revenues overall. Changes in the geographic sales mix, on the other hand, had a profound effect on overall revenues, particularly given the increased importance to Jaguar of the US market.

Indeed, in Jaguar's case an additional and vitally important factor, and one that was fairly unique for a British company at this time, was that of the US Dollar/Sterling exchange rate, discussed in Sub-Section 8.3.3 below. As related in Section 5.5 above, Jaguar's sales and marketing thrust under Egan was directed mainly at the USA, resulting in revenues from this market increasing unabated some fifteen-fold, from £37million in 1980 to a peak of £555.1million in 1987. This represented an average annual increase of 53.7% in this period, before suffering a decline of nearly 16%, to £467.6million, in 1988. Of particular note is the resultant dependency of Jaguar on the US market, with its US revenues, in Sterling terms, increasing from 22.3% of overall revenues in 1980 to over 60% in the years 1983 to 1986, as may be seen in Figure 8.3.

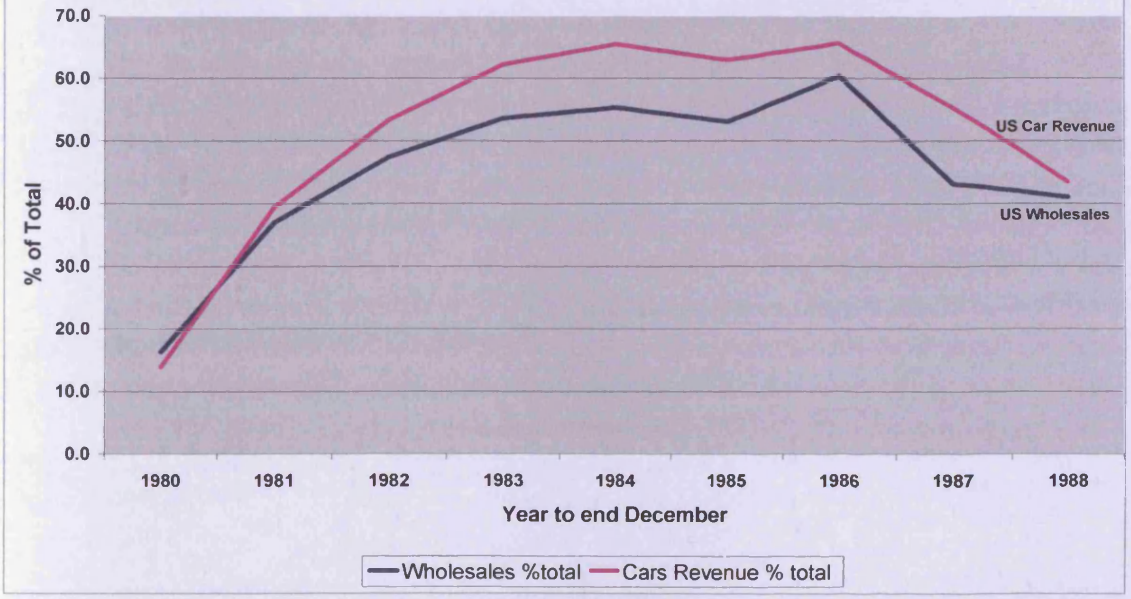
Apart from the importance of the US to Jaguar in terms of volumes and proportion of its overall revenues, the US also provided Jaguar with premium revenues, as may be seen from Figure 8.4. In 1980, the proportion of Jaguar's revenues from the US was lower than the proportion of its wholesales to that market, reflecting its weak position in the US at that time, and the consequent lower prices that were obtained compared to other markets. But from 1982 onwards, as a result of some combination of premium pricing, a higher proportion of top of the range vehicles in the product sales mix, increased volumes, and the impact of favourable currency exchange rates, the US proportion of its overall revenues exceeded, by a considerable margin, the US proportion of its total wholesales. The analysis of Jaguar's revenues that follows focuses on the US aspects since these, obviously, are the major factors of concern to such enquiry.

Figure 8.3: Turnover (£million) by Region, and % of turnover from the UK and USA markets, 1980 to 1988



Source: Jaguar Annual Reports and Accounts 1984 to 1990; Jaguar Offer for Sale document 1984.

Figure 8.4: Jaguar US Wholesales and US Car Revenues as % of Total Jaguar Wholesales and Car Revenues, 1980 to 1988



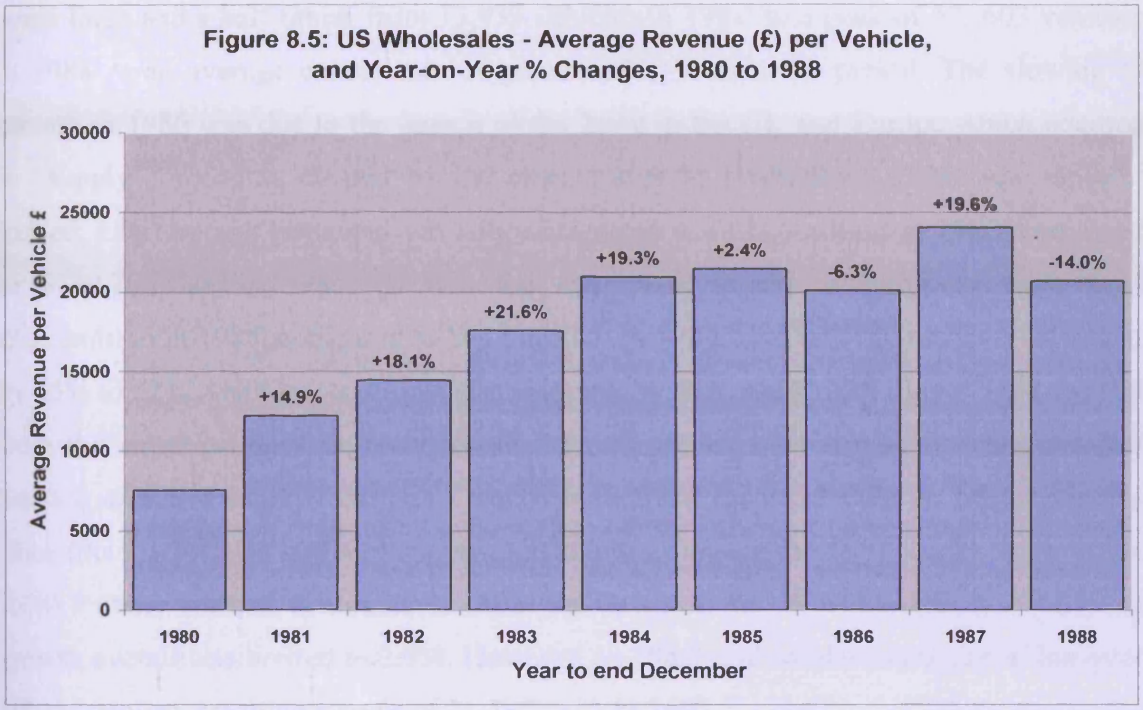
Source: Jaguar Annual Reports and Accounts 1984 to 1990; Jaguar Offer for Sale document 1984.

The corollary to Jaguar's increased dependence on the US was that of its reliance, for maintained profits, on the level of the US Dollar/Sterling exchange rate, a factor over which it could exercise no control. Here, it is of note that Jaguar did much to underplay the extent of the effects of favourable exchange rates when engaging with the City and media audiences whilst profits were increasing, but the reverse was true after 1986, when the then unfavourable exchange rate became the principal pretext for Jaguar's profits decline. However, not all commentators were convinced by Jaguar's lamentations, as demonstrated by *The Sunday Times* when it commented, "A word of advice to Sir John Egan: don't use the rise in sterling as an excuse for Jaguar's recent profit performance. The Japanese and West German car companies have had strong currencies for years, yet Mercedes, for instance, has 61% of the imported luxury car market in the United States".[4] It may be seen from Figure 8.5 that Jaguar's revenue per US vehicle wholesale increased considerably over the period, reflecting price increases, currency benefits, and changes in the sales mix, particularly as a result of a larger proportion of higher priced Vanden Plas saloons and XJ-S coupes being sold. As shown in Figure 5.1 above, US sales of XJ-S models as a proportion of total US sales steadily increased from 17.1% in 1983 to 25.5% in 1990. Although there was a slight drop in wholesale revenue per vehicle in 1986 this was due mainly to a greater proportion of the lower priced Series III saloons being included in the sales mix. Whilst average revenue per wholesale vehicle fell in 1988, due largely to the fall in the value of the US Dollar, it remained significantly ahead of that achieved in 1983, a year in which Jaguar reported a similar level of pre-tax profit.

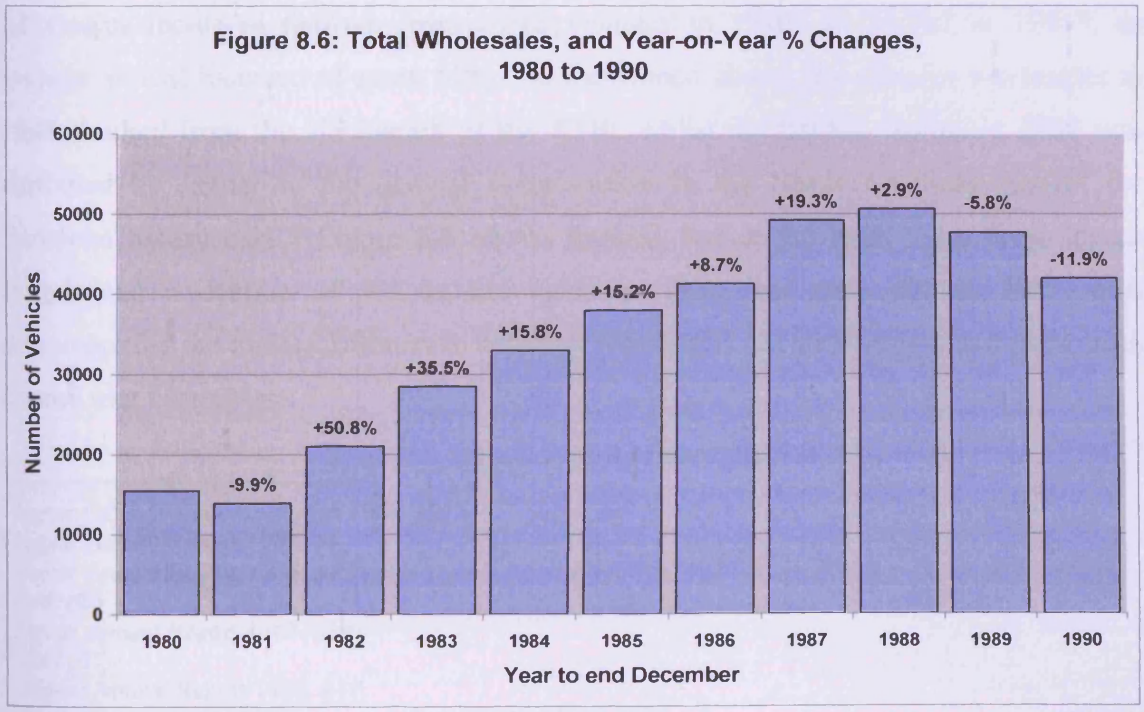
8.3.1 Sales Volumes

Jaguar's focus on the US market at the beginning of the period, and the consequent readjustment of supply, resulted in an overall decline in total wholesales in 1981 since the increase in US wholesales failed to compensate for lower wholesales elsewhere. Jaguar thereafter enjoyed seven years of continuous growth in total wholesales, as may be seen from Figure 8.6. During this period, wholesales increased

[4] *Sunday Times*, 4 September 1988.



Source: Jaguar Annual Reports and Accounts 1984 to 1988; Jaguar Offer for Sale document 1984.



Source: Jaguar Annual Reports and Accounts 1984 to 1990; Jaguar Offer for Sale document 1984.

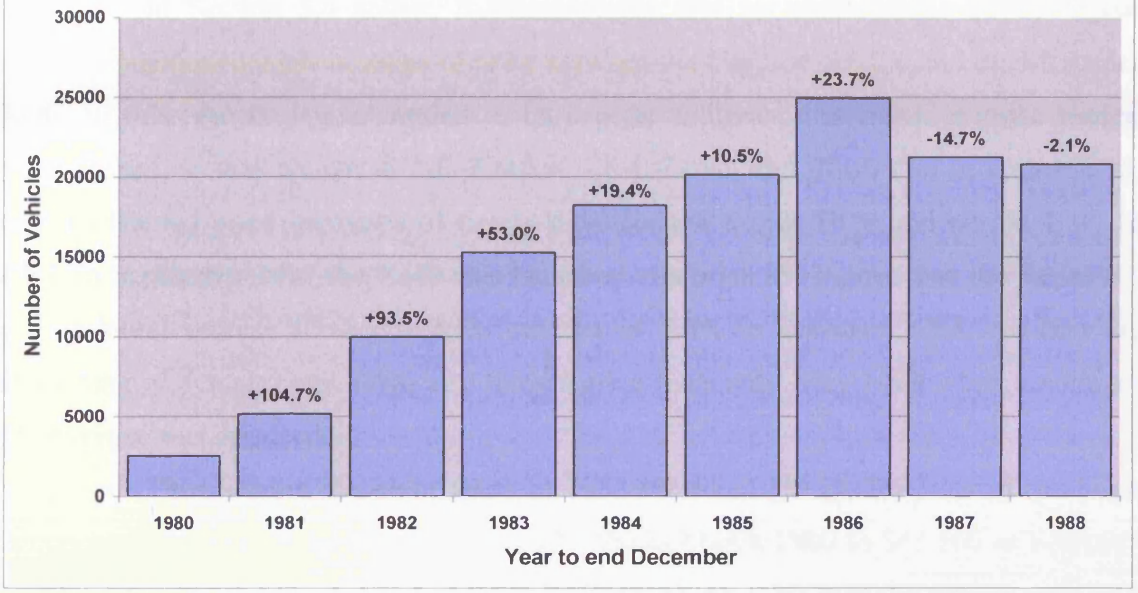
some three and a half times, from 13,933 vehicles in 1981[5] to a peak of 50, 603 vehicles in 1988[6] – an average annual rate of growth of 21% over the period. The slowing of growth in 1986 was due to the launch of the XJ40 in the UK and Europe which resulted in "supply constraints created by the change-over to production of the new range".[7] Indeed, UK turnover remained virtually unchanged at £131.5million in 1986, compared to £130.7million in 1985, as was the case with regard to European turnover - £63.5million in 1986, compared to £61.5million in 1985.[8] In 1987 UK turnover increased by 65% to £217.4million, and European turnover by 69% to £107.1million.[9] This resulted from the initial enthusiastic reception of the new model, with Jaguar reporting demand running ahead of supply, and more than compensated for the decline in US wholesales since this market also suffered supply constraints following the 1987 launch there of the XJ40.[10] Other markets continued to offset the downturn in US wholesales in 1988[11], but growth overall was limited to 2.9%. However, in 1989 total wholesales began a four-year US-led decline, reaching a nadir of 21,797 units in 1992.[12]

The impact of the remarkable six years of continuous growth in US wholesales from 1982 onwards is shown in Figure 8.7. From 1980 to 1986, US wholesales increased tenfold, from 2,518 vehicles in 1980[13] to 24,901 in 1986[14], an average annual increase of some 50%. As mentioned above, the drop in wholesales in 1987 resulted from the US launch of the XJ40, whilst the further decline in 1988 was attributed by Jaguar to the general deterioration in the North American market for European luxury cars.[15] Figure 5.8 above showed that at the retail sales level Jaguar experienced a decline of 9% in US sales in 1988, but only 6% in 1987, thus demonstrating the timing differences between wholesales (to distributors) and retail sales (to end user customers).

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[5] Jaguar Offer for Sale document 1984. p3.
[6] Jaguar Annual Report 1988. p4.
[7] Jaguar Annual Report 1986. p15.
[8] *Ibid.* p26
[9] Jaguar Annual Report 1987. p30.
[10] *Ibid* p17.
[11] Jaguar Annual Report 1988. p17.
[12] Jaguar Accounts 1993. p1.
[13] Jaguar Offer for Sale document 1984. p3
[14] Phillips and Drew, Investment Circular, May 1987.
[15] Jaguar Annual Report 1988 p17.

Figure 8.7: US Wholesales, and Year-on-Year % Changes, 1980 to 1988.



Source: Jaguar Annual Reports and Accounts 1984 to 1988, Jaguar Offer for Sale document 1984.

From 1989 onwards, under Ford control, figures for the US market were not published separately, but combined with those of Canada in a new "North America" category.

8.3.2 US Pricing

As revealed in Section 5.3 above, in the US market throughout the 1980s Jaguar obtained some 75% or more of its vehicle sales from the Series III, and then the XJ40, saloon. Included in this was the higher specification, and higher priced, Vanden Plas version, introduced in 1982. However, Jaguar never provided a breakdown between the sales of the two versions. The Vanden Plas saloon and the XJ-S Sports Coupe, introduced in 1981, were both priced some 10% higher than the basic Series III/XJ40, but pricing changes tended to maintain the differential between the different models. Consequently, an appreciation of the effects of price changes in the US market on Jaguar's overall performance may be obtained by restricting the analysis to that of the pricing changes of the basic model. In order to simplify the analysis it has been assumed that particular

prices were in force throughout the calendar year, when in fact prices generally related to the model year, which began in October. However, in general, over time the resultant differences will tend to be evened out.

In Section 5.4 above, it was revealed that for most of the 1980s Jaguar carefully positioned itself in terms of price between the Cadillac Seville and the Mercedes 300E. In this respect Jaguar tended to be a price follower rather than a price leader. Nevertheless, as was shown in Sub-Section 5.6.4 above, and illustrated in Figure 5.15, Jaguar obtained price increases of nearly 62% for the Series III in the period 1980 to 1987. In September 1987 the XJ40 was launched at a price 8% higher than the Series III, and its initial success allowed a price increase of 7.4% in February 1988, but then the weakening of demand precluded any further price rises until May 1989 when a nominal 1% increase was imposed.

Thus, during the eight years to 1988 the retail US Dollar price of the basic saloon model increased by 87.5% - from $23,200 in March 1980 to $43,500 in February 1988, an average annual increase of 8.4%.[16] However, as a result of the further softening of demand, and to combat the entry of the Japanese into the US luxury vehicle market, Jaguar introduced, alongside the existing XJ40 model, a lower specification saloon for the 1990 model year, priced some 10% below that of the existing entry model.

8.3.3 Currency

With as much as 85%, and seldom less than 75%, of Jaguar's turnover in the period 1983 to 1990 being derived from exports from the UK[17], the Sterling exchange rate was an important factor in the company's profitability. However, according to Edwards, the benefits of favourable exchange rates from 1980 to 1985 gave rise to an arrogance on the part of Jaguar that prevented cognisance of a number of its long term problems[18], and the strength of Sterling after 1985 provided Jaguar, currency hedging benefits notwithstanding, with a convenient excuse for lower profits. It may well have been true, for example, as Egan asserted in 1988, that at that time, "each 10 cents off the dollar is

[16] *Automotive News*. Various Issues.
[17] Jaguar Offer for Sale document 1984, and Jaguar Annual Reports and Accounts 1984 to 1990.
[18] John Edwards, Interview with the author, November 2002. *Appendix* p52.

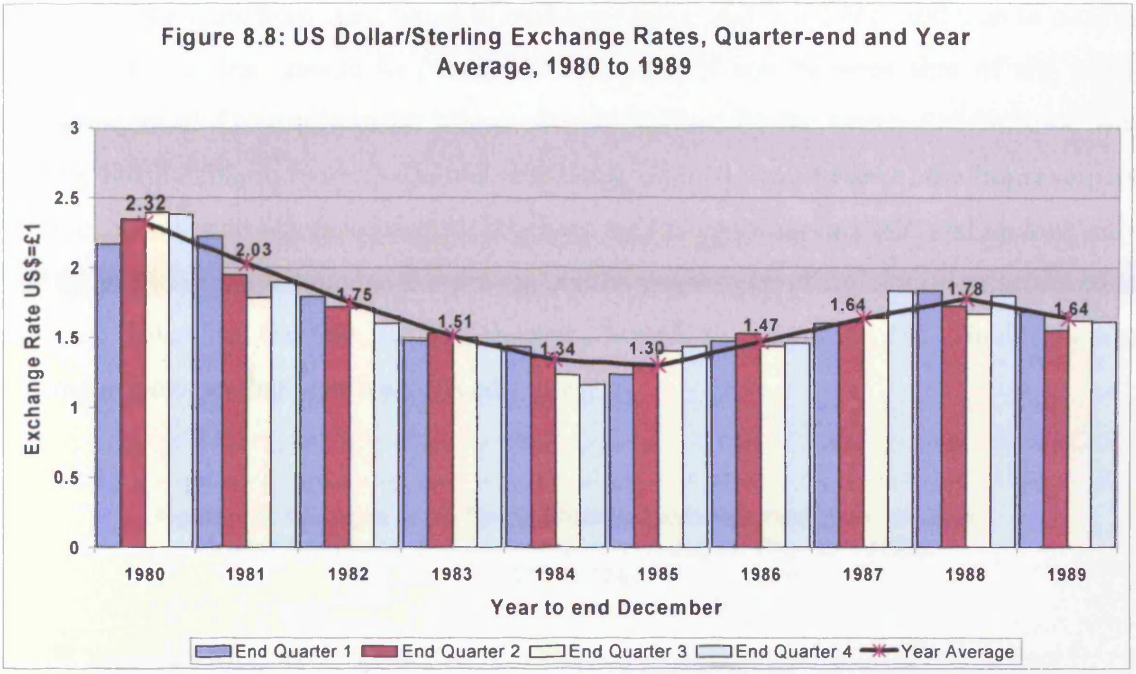
costing us £35m off the bottom line"[19], but there were other factors that did, or could, compensate for the strength of Sterling. In revenue terms, increased prices in the US, and the increased focus on the UK, for example, should have mitigated to some extent the negative impact of the rise of Sterling. Indeed, UK revenues increased from £131million, representing some 16% of total turnover in 1986[20], to £309million, representing some 29% of total turnover in 1988.[21] Even so, the changes in the US Dollar/Sterling exchange rate could not fail to have a significant impact on Jaguar's overall revenues, and hence profits, over the course of the 1980s, given the level of its US sales, and the extent of this is explored in the following analysis.

As shown in Figure 8.8, the US Dollar strengthened significantly against Sterling in the first half of the decade, before weakening again in the second half. Indeed, the US Dollar reached its zenith against Sterling in March 1985 with a rate of £1=$1.064, but then quickly weakened to below $1.20, ending 1985 at $1.44.[22] By 1988 there were considerable fluctuations in the exchange rate, and although the rate seldom went above $1.70, it was below $1.80 for much of the year.

At the time that the US Dollar was strengthening, and subsequently due also to the benefits of its currency hedging operations from 1985 onwards, Jaguar obtained a greater proportion of its profits from currency movements than it did from manufacturing and selling motor vehicles. According to Edwards, over half of Jaguar's peak pre-tax profits of some £120million in both 1985 and 1986 resulted from movements in the US Dollar, and from the company's in-house treasury operations, Jaguar maintaining a $1billion forward hedge for much of the time.[23] Treasury operations also involved other currencies, although these were hardly ever publicized by Jaguar, and certainly never quantified in terms of rates obtained, but the addition of exchange benefits other than those from the US Dollar resulted in total currency benefits of some £80million at the pre-tax level in 1985 and 1986.[24] Unfortunately, without access to Jaguar's internal

[19] *Financial Times*. 22 August 1988.
[20] Jaguar Annual Report 1986. p26.
[21] Jaguar Annual Report 1988. p32.
[22] Datastream.
[23] John Edwards. Telephone conversation with the author, December 2006. *Appendix* p52n68.
[24] Roger Putnam, Interview with the author, November 2006. *Appendix* p118.

Figure 8.8: US Dollar/Sterling Exchange Rates, Quarter-end and Year Average, 1980 to 1989



Source: Datastream

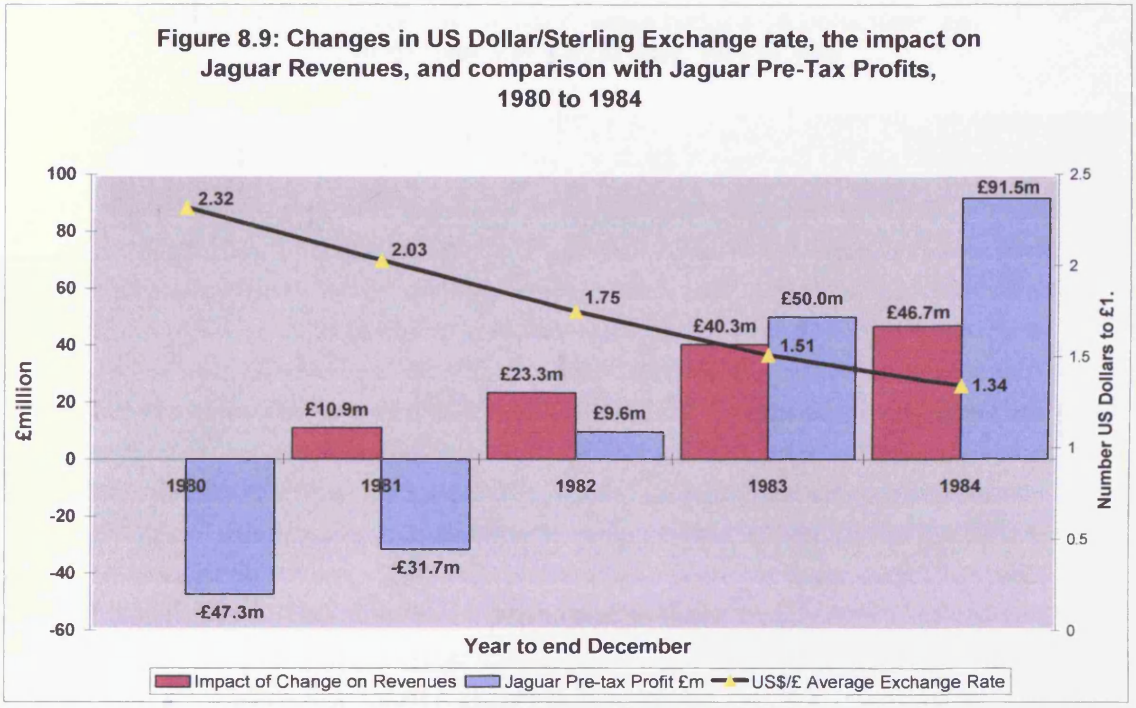
records it is not possible to detail the impact of currency fluctuations, particularly since the accounting treatment adopted by Jaguar was that of booking on a monthly basis profits resulting from treasury operations. The turning point, according to Edwards, was March 1985 when the US Dollar reached near parity with Sterling before weakening again, to an exchange rate of £1=$1.44, by the year end. However, this highly favourable exchange rate allowed Jaguar to book a profit of £25million for March 1985 alone – its best month ever for currency profits.[25] Obviously, this was balanced by other months when there were little or no profits booked, and some when losses resulted.

An indication of the impact of the strengthening of the US Dollar in the period before Jaguar commenced currency hedging is provided by Figure 8.9. The impact on revenues of changes in the value of the US Dollar is given by the difference between the current year US turnover in terms of the current year exchange rate, and that of the previous year. Thus, for example, US Dollar revenues (unit price in US$ times volume) in 1981 of $176.6million gave Sterling revenues of £87million (at the stated exchange rate of £1=$2.03). At the previous year's stated rate (£1=$2.32) the 1981 US revenues would translate as £76.1million. The difference of £10.9million (shown by the red

[25] John Edwards telephone conversation with the author. December 2006. *Appendix* p52n68.

column) is the gain from the change in exchange rates, and is a direct addition to profits. Relating this to the change in profits for the year, it can be seen that of the profit improvement of £15.6million (to a loss of £31.7million for the year), £10.9million was directly attributable to more favourable exchange rates. As can be seen, the improvement in the exchange rate increased overall revenues by £23.3million in 1982, and undoubtedly was a significant contributor to the pre-tax profits turnaround of £41.3million achieved in that year. Likewise, the £40.3million currency benefit to revenue in 1983 obviously was the major factor in that year's profits advance.

Figure 8.9: Changes in US Dollar/Sterling Exchange rate, the impact on Jaguar Revenues, and comparison with Jaguar Pre-Tax Profits, 1980 to 1984

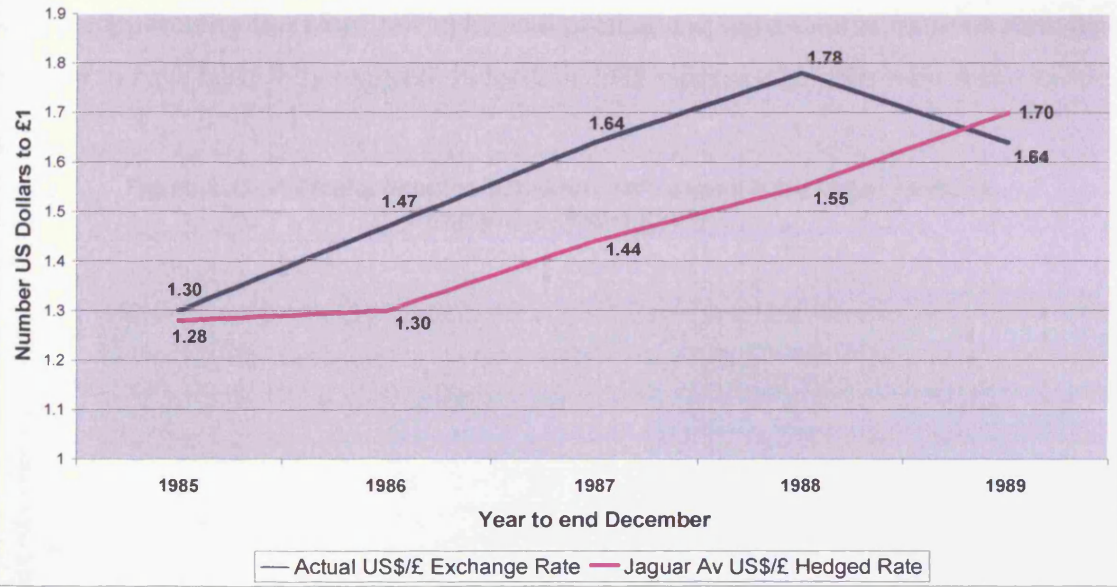


Source: Jaguar Annual Report and Accounts 1984; Jaguar Offer for Sale document 1984; Datastream

As mentioned above, at the end of 1984, with the possibility of a strengthening of Sterling, Jaguar began to sell forward its currency positions on a rolling twelve-month basis. However, whilst hedging helps smooth out short-term fluctuations, it cannot provide a great deal of protection against the sort of unfavourable long-term trends that Jaguar encountered in the second half of the 1980s. Jaguar's currency hedging operations resulted in considerable benefits when the direction of exchange rate movements could be correctly anticipated, as demonstrated in Figure 8.10, but might

produce losses otherwise. Figure 8.10 shows the difference between the actual US Dollar/Sterling exchange rate, and Jaguar's hedged rate, and gives an indication of the potential gains or losses from currency hedging. Thus when the actual rate is £1=$1.64 then $164 translates as £100, but the hedged rate of $1.44 gives £113.9, a gain of £13.9 per $164 of revenue. But, when the hedged rate is below the actual rate (that is, giving less pounds per dollar – shown in Figure 8.10 as the hedged rate line being above that of the actual rate line) then there is an exchange loss. Thus a hedged rate of £1=$1.70 gives £96.5 per $164 – an exchange loss of £3.5 per $164 of revenue.

Figure 8.10: Comparison Jaguar Average hedged US Dollar/Sterling Exchange Rate with Market Rate, 1985 to 1989



Source: Jaguar Annual Reports and Accounts 1985 to 1990; Datastream.

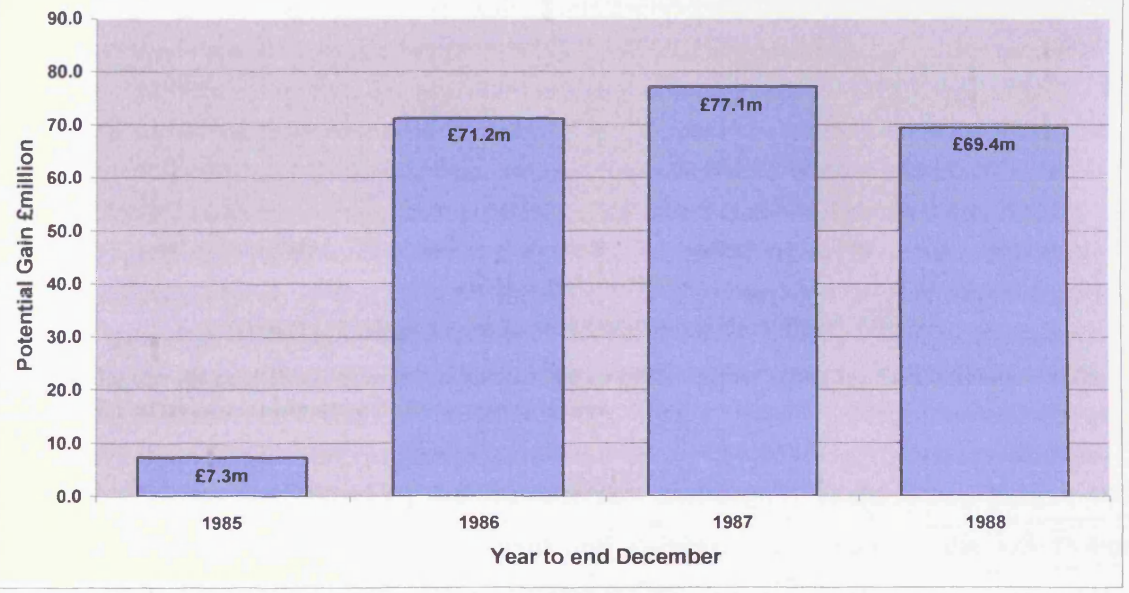
Jaguar did well in protecting its revenues from the worst of the adverse currency fluctuations up to 1988, but then, with the rate at $1.80 or below (for example, $1.90) in mid-1988, sold forward at $1.70. In the event, although the rate was at $1.70 or below for the first three months of 1989, it thereafter strengthened, to above $1.60 for five months of the year, with an average rate for the year of $1.64. Jaguar emphasised

that this was one factor resulting in currency exchange reducing Jaguar's pre-tax profits by £18.5m in the first six months of 1989.[26]

Because of Jaguar's accounting treatment of currency gains mentioned above, it is difficult to determine the actual benefits through an analysis of the published data. However, the difference between Jaguar's average sold forward US Dollar rate and the actual average market rate applied to US Dollar revenues does provide an indication of the potential gains, or losses, from currency hedging.

Figure 8.11 demonstrates the potential benefits from 1985 through to 1988. From the information provided by Edwards it is known that Jaguar exceeded the potential for currency profits in 1985 provided by its hedging programme. In each of the other three years, the actual exchange rate was never above that of the hedged rates obtained, with no opportunity therefore for additional profits, and the potential benefits shown are unlikely to have been fully realised. Indeed, in 1988 currency benefits were some £45m

Figure 8.11: Potential benefits (£million) from Jaguar's US Dollar Hedging Programme, 1985 to 1988



Sources: Jaguar Annual Reports and Accounts 1985 to 1988; Datastream.

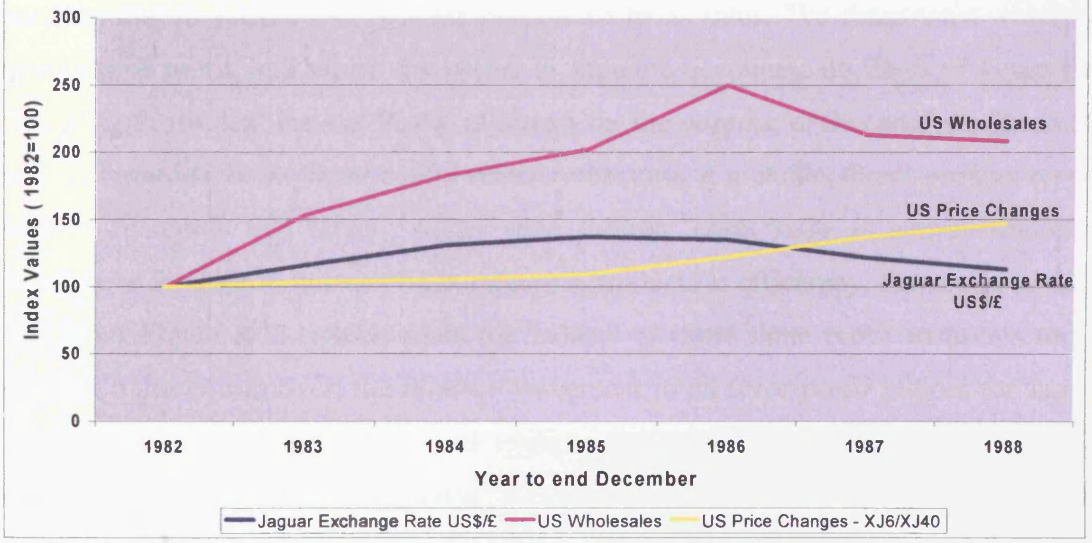
[26] Jaguar City Analysts Results Briefing 13 September 1989. (Author's own contemporaneous notes).

lower at the pre-tax level compared to 1987, of which some £35m was accounted for by changes in US Dollar exchange rates.[27]

8.3.4 Comparison of Changes in Main Elements of Jaguar's US Revenues.

The above analysis of the three main determinants of Jaguar's US revenues (in Sterling) has demonstrated that the changes in each should have contributed to increased revenues, and, hence, improved profits. Ignoring the first two years of recovery when the relatively low figures would have given a distorted picture, all the indices were ahead of the 1982 base figure, as shown in Figure 8.12. Of particular note is that the

Figure 8.12: Indices of Main Elements of Jaguar's US Revenues (in Sterling), 1982 to 1988



Sources: Jaguar Annual Reports and Accounts 1984 to 1988, Jaguar Offer for Sale document 1984; Datastream; *Automotive News* Various Issues.

volume index was well ahead of that for currency exchange over the whole period, and that after 1986 the indices for both price and volume were ahead of the US Dollar exchange rate index. This provides support to the argument that currency, whilst important, was not the crucial element that Jaguar had been portraying, something that Bhaskar *et al* in 1984 had pointed to, confidently forecasting that, even at a rate of $2.25,

[27] Jaguar City Analysts Results Briefing 16 March 1989. (Author's own contemporaneous notes).

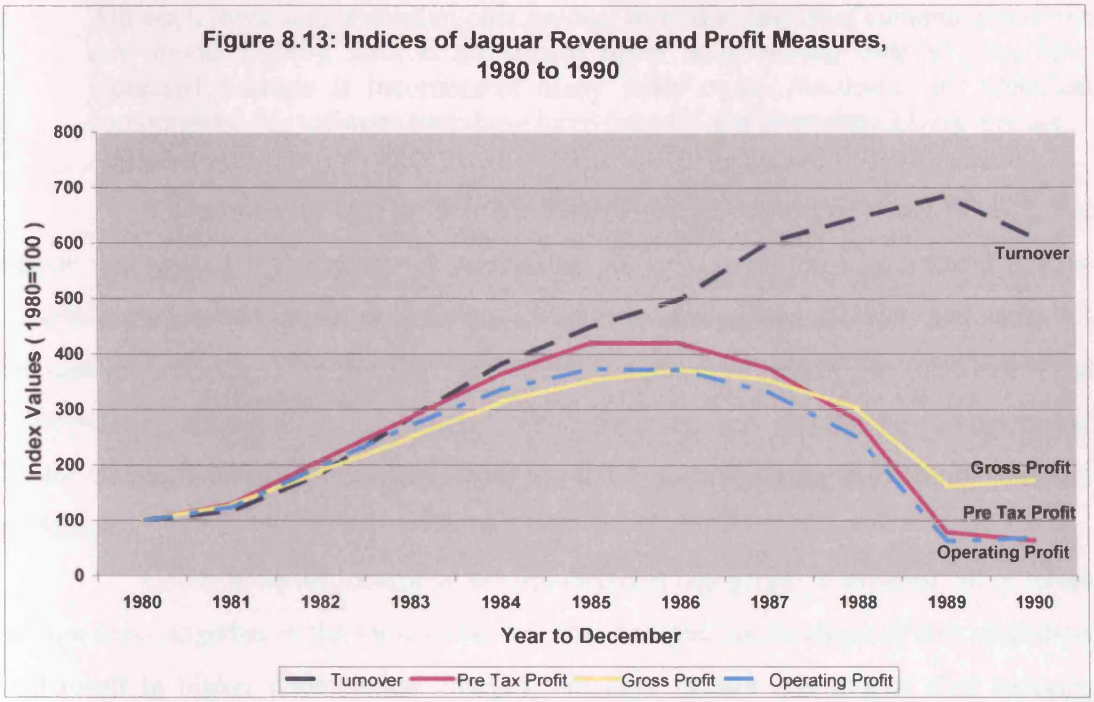
"Jaguar would still be profitable (just) as long as sales held up".[28] Indeed, at the end of 1987 Egan was saying that, "What's happened in the US is that luxury-car pricing has been more or less in line with depreciation of the dollar. So, in a way, we've been able to keep pace".[29] In 1981 Egan had stated that, "We are satisfied with the pound at $2.30, so at $1.88 we're quite happy"[30], but by 1988 Jaguar was telling journalists that it was "difficult to make profits with Sterling above $1.80".[31] What had changed in the intervening period was Jaguar's cost base, and the extent of this change, and its composition, is explored in the following section of this chapter.

8.4 Costs

In Section 8.1 above it was pointed out that the success of a company is judged not only by its ability to increase sales but also by its skill in keeping control of its costs, hence ensuring that its profits rise in some proportion to its sales. The three most widely used measures of profit, and which are stated in Jaguar's accounts, are those of Gross Profit, Operating Profit, and Pre-tax Profit, although for the purpose of this analysis Gross Profit may be regarded as the most useful measure because it includes direct production costs, such as materials and labour, rather than indirect costs such as administration, and therefore is the best indicator of a company's production efficiency. However, as may be seen from Figure 8.13, which plots the indices of these three profit measures together with the index of turnover, the relative movement in all three profit indices for Jaguar is very similar over time. In the period 1980 to 1983, the three profit indices shadow the turnover index, indicating that Jaguar was able to match costs with turnover. However, the profits indices start to decouple from the turnover index from 1984 onwards, indicating that Jaguar had started to lose control of its costs as it pushed for ever-higher sales volumes, as was noted in Section 6.3 above.

[28] Bhaskar, K N et al. *Jaguar: An Investor's Guide*. UEA Motor Industry Research Unit, 1984. p117.
[29] *Automotive News*. 14 December 1987.
[30] *Automotive News*. 10 August 1981.
[31] *The Independent*. 27 August 1988.

Figure 8.13: Indices of Jaguar Revenue and Profit Measures, 1980 to 1990



Sources: Jaguar Annual Reports and Accounts 1984 to 1990; Jaguar Offer for Sale document 1984

Indeed, following the launch of the XJ40 in 1986, and particularly following its US launch the following year, costs appear to have got out of control to a great extent. This would certainly have been surprising to the City audience which had been told repeatedly in analysts meetings that the new model would be much easier, and hence cheaper, to build than the one it was replacing. In March 1985, the stockbroker Hoare Govett, echoing what had been stated in the recent Jaguar results meeting, had written that, "after the first year the introduction of the XJ40 should yield significant reductions in manufacturing costs, with a consequent benefit for margins"[32], whilst in January 1987 the stockbroker Phillips and Drew reported that, "the new model potentially offers approximately 20% productivity gains due to greater ease of assembly". [33] However, in May 1987 Philips and Drew were warning that:

[32] Hoare Govett, Investment Circular. 21 March 1985.
[33] Phillips and Drew Investment Circular. 27 January 1987.

> Although there are substantial cost savings from the simplified construction of the new model [XJ40], such as the use of fewer body panels, material costs have increased because it incorporates many more costly electronic and electrical components. We estimate that these have risen by approximately £1,200 per car.[34]

It was not until late 1988, in the face of potential financial losses in 1989, that Jaguar appreciated the urgency of addressing its costs issue, and announced a cost-reduction programme aimed at reducing its costs by £50million in 1989, and some 5% per annum thereafter.[35] For the first half of 1989 Jaguar was able to announce that it had achieved cost savings of £12.1million.[36] This, however, was insufficient to compensate for the £33million dilution resulting from lower US sales volumes and adverse currency exchange.

Costs, however, comprise several different categories of expense, all of which seldom move together in the same direction. For example, the purchase of new machinery will result in higher depreciation charges, but may require less labour, thus reducing direct labour costs by a greater amount, and hence will give improved profit margins. In Jaguar's case, given the considerable disparity that emerged between the turnover and profits indices after 1985, it is obvious that the problem related to more than one area of cost, as will be demonstrated in the following sub-sections.

8.4.1 Employment Costs

In Section 6.6 above, the problem of the continual rise in total employee costs throughout the period 1983 to 1990 was discussed. There it was noted that these costs continued to rise even in 1989 and 1990 when vehicle output reduced, and employee numbers were cut. This was illustrated in Figure 6.7. In every year in this period, with the exception of 1983 when wholesales experienced a sharp recovery, the percentage increase in total employee costs was greater than that for vehicle production, thus demonstrating Jaguar's lack of control over employee costs, and its generosity regarding pay awards. This present sub-section discusses this further, examining the impact of changes in employment costs on Jaguar's profits.

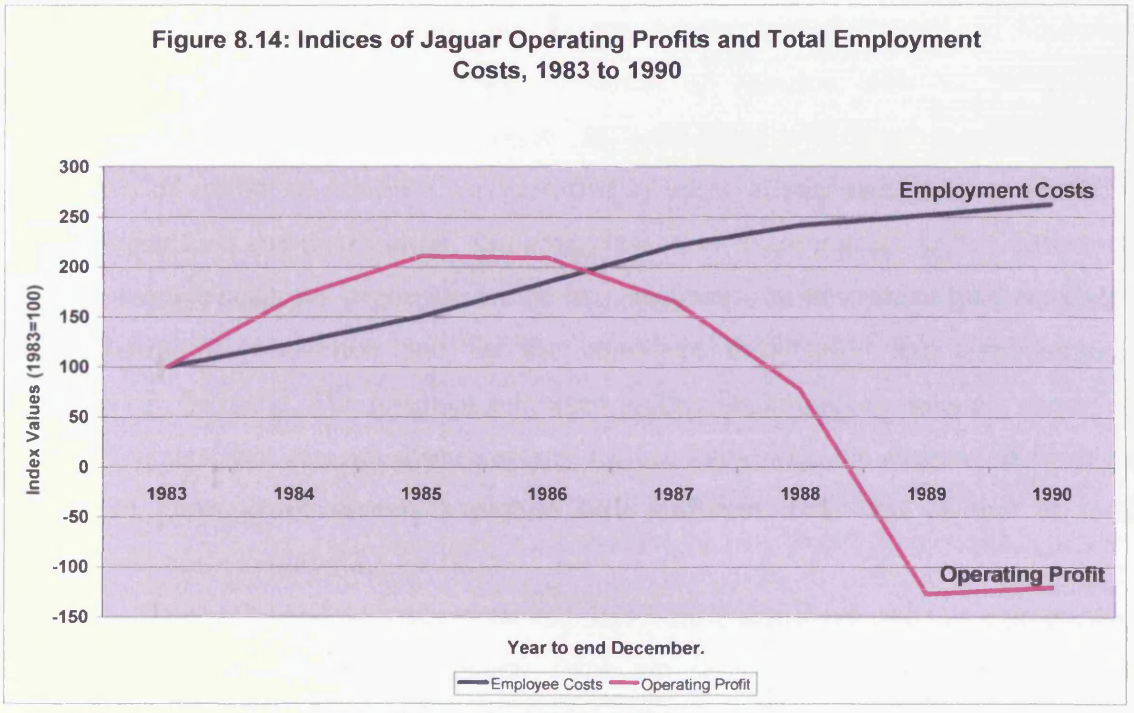
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[34] Phillips and Drew Investment Circular. May 1987.
[35] Jaguar City Analysts Results Briefing 26 August 1988. (Author's own contemporaneous notes).
[36] Jaguar City Analysts Results Briefing 13 September 1989. (Author's own contemporaneous notes).

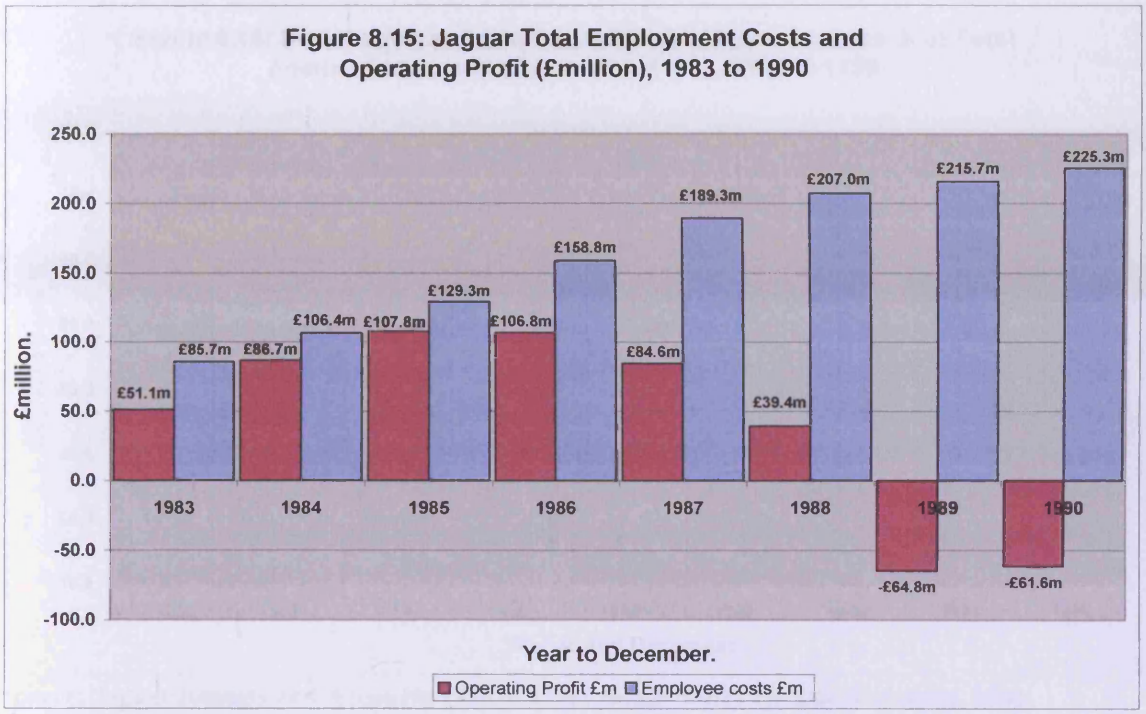
Since employee information must be disclosed as a note to the Accounts in the Annual Report and Accounts, it is a fairly straightforward task to analyse changes in employment costs. Unfortunately, the Jaguar Offer for Sale document does not disclose employment costs and consequently the figures for 1980 and 1981 cannot be included in this analysis, but in any case the profit figures for these two years, and that of 1982, are too low for them to be used as a base year for calculating indices. The figures for 1983 and 1984 are taken from the Jaguar's 1984 Annual Report and Accounts. The relationship between total employment costs and operating profit in terms of their indices is shown in Figure 8.14. From this it can be seen that total employment costs continued to rise throughout the period, despite the significant fall in operating profits after 1986.

However, despite this inverse relationship after 1986, it may be seen from Figure 8.15 that the increase in total employment costs during this time, whilst an obvious contributory factor to reduced profitability, was not the sole factor, particularly after 1987. In 1988, for example, total employment costs increased by some £18million, whilst operating profit fell by some £45million.

Figure 8.14: Indices of Jaguar Operating Profits and Total Employment Costs, 1983 to 1990



Source: Jaguar Annual Reports and Accounts 1984 to 1990.

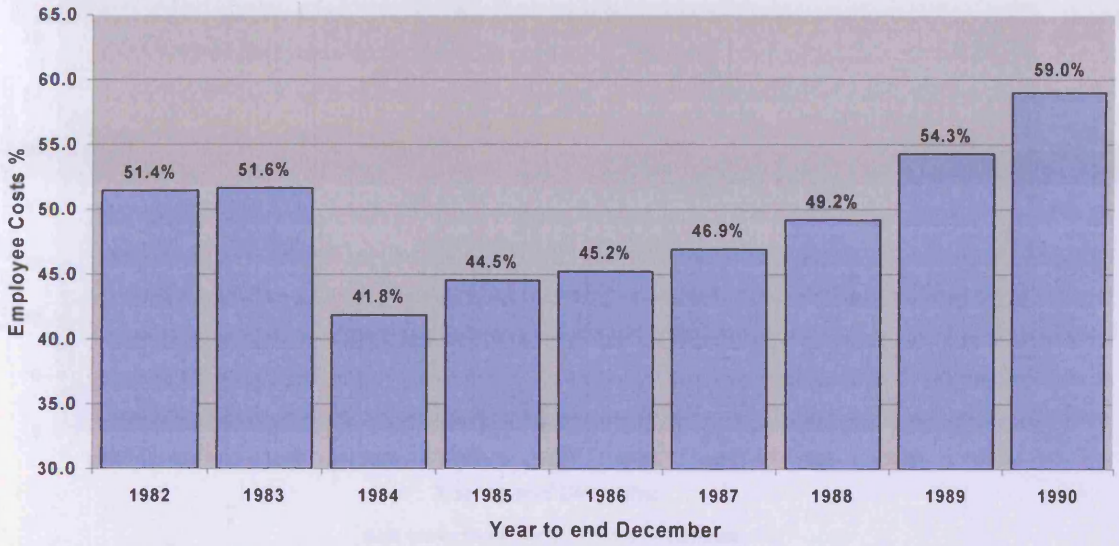


Source: Jaguar Annual Reports and Accounts 1984 to 1990.

Whilst total employment costs are stated in the Annual Reports and Accounts, these are not analysed further there in terms of function; that is, production, administration, and distribution. However, in conformity with legal requirements, a breakdown of employee numbers was provided in terms of two categories: production, and administration and distribution. Assuming that there is not a great deal of difference between average costs per employee for the two categories, an estimate of total employee costs relating to production and for the combined distribution and administrative functions can be made. The resultant estimated production employee costs are shown in Table 8.1 above, but are not discussed any further here since an analysis of these in relation to gross profit reveals a picture little different from that of that of total employment costs to operating profit.

The estimated administrative and distribution employee costs as a proportion of total administrative and distribution costs are shown in Figure 8.16. That the proportion taken by employee costs fell significantly in 1984 was probably largely due to the sharp rise in administrative expenses as a result of the incremental costs resulting

Figure 8.16: Distribution and Administration Employee Costs as % of Total Administration and Distribution Costs, 1982 to 1990



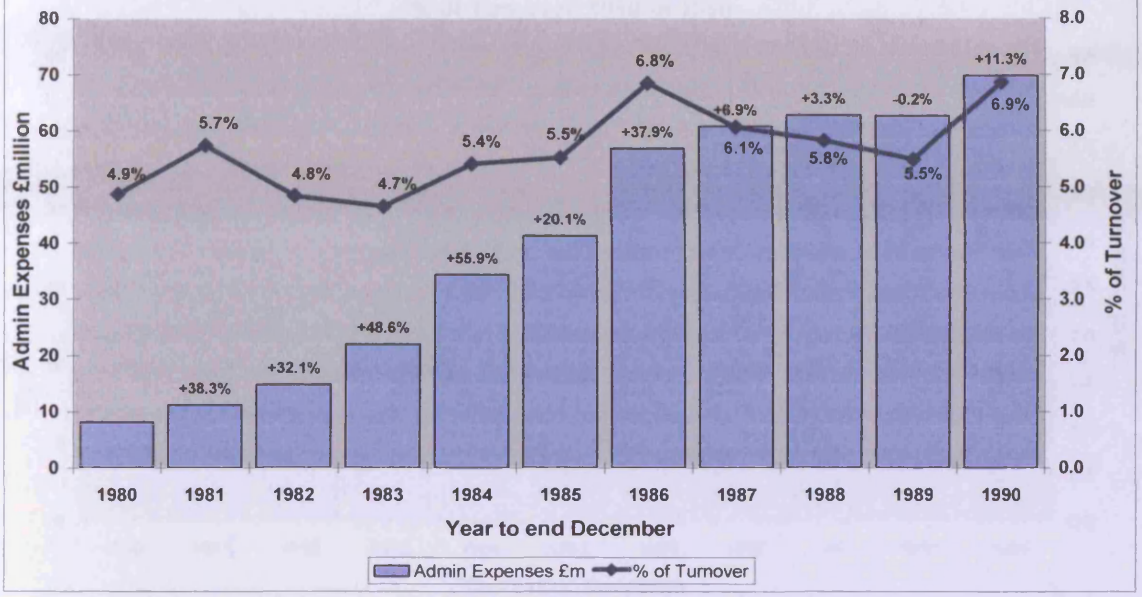
Source: Jaguar Reports and Accounts 1984 to 1990; Jaguar Offer for Sale document, 1984.

from Jaguar's privatization, and it is of note that these increased nearly threefold in the four years to 1987, and remained at this higher level for the remainder of the period under review. But, given the much lower increases in distribution costs compared to that for administration expenses, it is likely that the increased employee costs related in a large part to the administration area, discussed in the following sub-section.

8.4.2 Administration Expenses

This category typically includes administrative staff salaries, including those of directors, administration buildings' costs, and professional fees. Unlike Jaguar's Distribution Costs, discussed in the following sub-section, these continued to rise, in absolute terms and as a percentage of turnover, for much of the period, as can be seen in Figure 8.17.

Figure 8.17: Administration Expenses (£million), Year-on-Year % Changes, and as % of Turnover, 1980 to 1990



Source: Jaguar Annual Reports and Accounts 1984 to 1990; Jaguar Offer for Sale document, 1984.

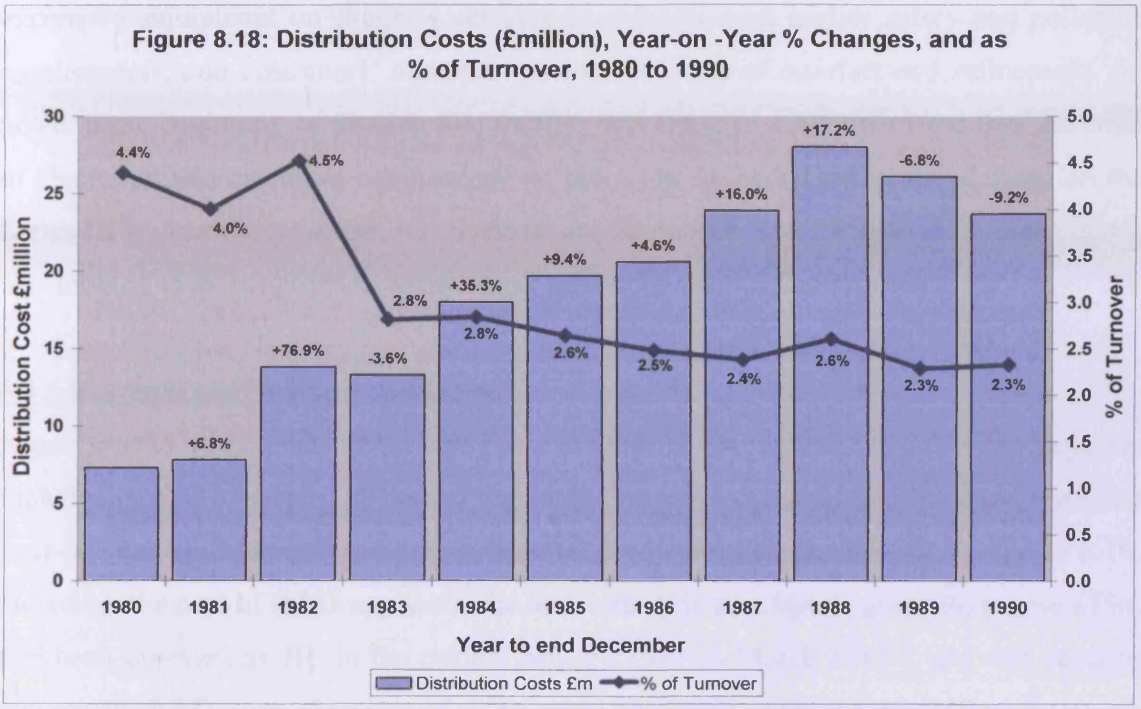
Undoubtedly these increases resulted largely from the persistent recruitment of engineers, discussed in Sub-Section 7.4.1 above, the numbers of whom increased by nearly 80% between 1984 and 1988, from 675 at the end of 1984 to nearly 1,200 at the end of 1988[37], and the costs associated with the Whitley Engineering Centre, discussed in Section 6.5 above.

8.4.3 Distribution Costs

Generally, Distribution Costs include all the costs of holding goods for sale, promotional, advertising and selling costs, employee costs, and the costs of transferring goods to customers. As can be seen from Figure 8.18, these costs as a proportion of turnover rose in 1982, reflecting the initial costs of greater dealer support as the new franchising arrangements took effect. However, costs as a proportion of turnover thereafter fell rapidly as Jaguar was able to take advantage of the economies of scale allowed it by the dramatic upturn in demand from 1982 onwards, and the company did well to maintain these costs at some 2.5% of annual turnover during the remainder of the period.

[37] Jaguar Report and Accounts, 1985 and 1988.

Figure 8.18: Distribution Costs (£million), Year-on -Year % Changes, and as % of Turnover, 1980 to 1990



Source: Jaguar Annual Reports and Accounts 1984 to 1990; Jaguar Offer for Sale document, 1984.

8.4.4 Purchasing Costs

Jaguar tended to comment at length about its suppliers, but seldom provided an indication of the cost of materials used in vehicle production, possibly for reasons of commercial confidentiality. However, in its Annual Report and Accounts for 1985, 1986, and 1987, Jaguar did provide a figure for its total external purchases. These included capital expenditures which are separately stated in the Accounts, and stripping these numbers out of the external purchases total gives a figure for production materials purchases. This emerges as a virtually constant 59% of the total Cost of Sales figure, and it is this percentage that has been applied in the Profit and Loss Account in Table 8.1. However, the figure for 1989 is likely to be overstated, due to the warranty cost-driven increase in the Cost of Sales figure for the year, with as much as £100million of the Purchasing Costs figure being "Balance of Costs". It should be noted that there is often scope for purchase costs as a proportion of total costs to fall as production volumes increase due to discounts obtainable for higher volumes purchased, and it is surprising that this does not appear to have been the case with Jaguar. However, one likely explanation for this was the

incremental cost of installing, throughout the 1980s, increasingly sophisticated, and expensive, equipment on Jaguar's vehicles in order to meet higher safety and pollution requirements, and customers' demands for higher levels of comfort and refinement. As noted at the beginning of Section 8.4, Phillips and Drew in 1987 estimated that the costs of electronic and electrical components on the XJ40 exceeded the costs of those on the Series III by some £1,200 per car. Even so, by September 1989 Jaguar announced that it was looking to its suppliers to reduce their prices for various components.[38]

8.4.5 Research and Development Costs

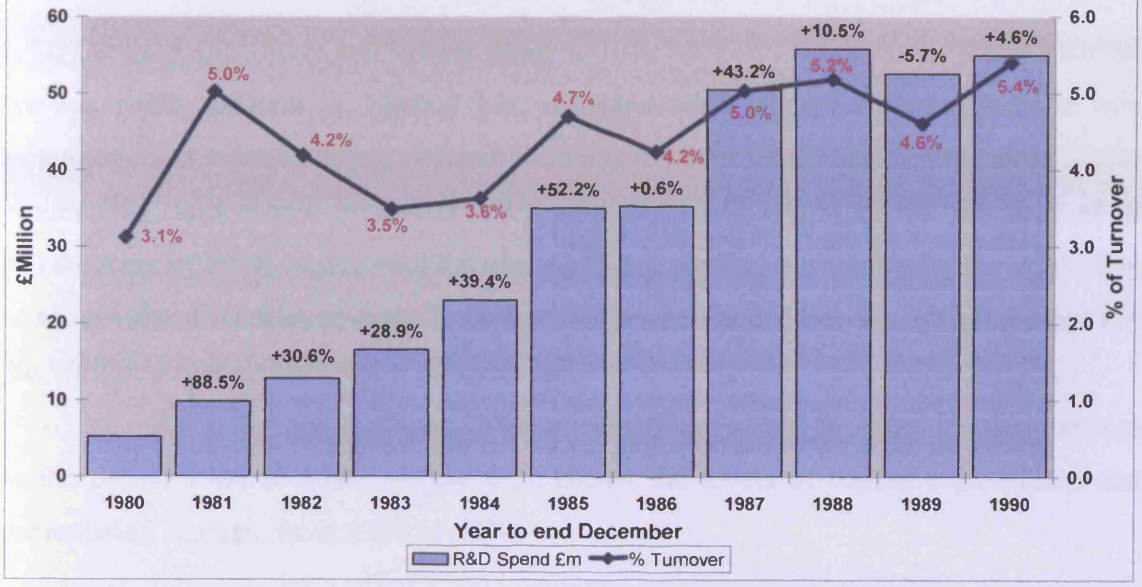
Jaguar treated its expenditure on research and product development as a revenue expense, included in cost of sales. The annual Research and Development (R&D) expenditure, the year-on-year change, and the spend as a total of turnover, are shown in Figure 8.19. However, the cost of R&D appears to be understated in this figure, given that some £75m had been invested by BL in the period January 1981 to March 1983[39], and that costs of component R&D were often shared on an equal basis with component suppliers.[40]

Jaguar's often stated intention was for R&D spend to be fairly constant at 4% of annual turnover, but it exceeded 5% in 1981, and in 1987-1989, due to the extra spend required to resolve the quality problems discussed in Section 7.7 above.

Of particular import to the present discussion is the impact of increased R&D spend on profits and this can best be judged by reference to the rate of increase in R&D spend compared to that of Cost of Sales overall. Figure 8.20 shows the rates of increase of R&D spend and cost of sales as indices with 1981 as the base year since 1980 is considered to be too low to be meaningful as an index base. As can be seen, for most of the period the rate of increase of R&D spend exceeded that of the rate of increase of Cost

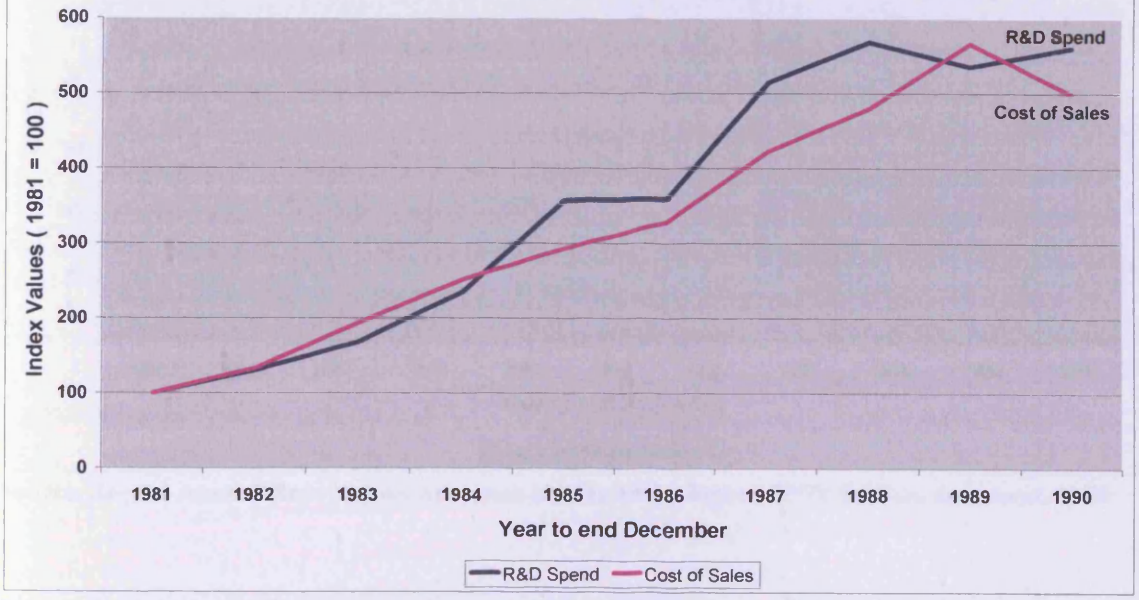
[38] Jaguar 1989 Interim Results Analysts Meeting. September 1989. (Author's own contemporaneous notes).
[39] "Trade and Industry Select Committee. Finance for BL. Third Report, together with the proceedings of the Committee relating to the Report and the Minutes of Evidence". *Parliamentary Papers*. 1980-81. vol XL (**HC 490**). p61.
[40] Jaguar Offer for Sale document 1984. p6.

Figure 8.19: Annual R&D Spend (£million), Year-on-Year % Changes, and R&D Spend as % of Turnover, 1980 to 1990



Source: Jaguar Annual Reports and Accounts 1984 to 1990; Jaguar Offer for Sale document, 1984.

Figure 8.20: Indices of R&D Spend and Cost of Sales, 1981 to 1990



Source: Jaguar Annual Reports and Accounts 1984 to 1990; Jaguar Offer for Sale document, 1984.

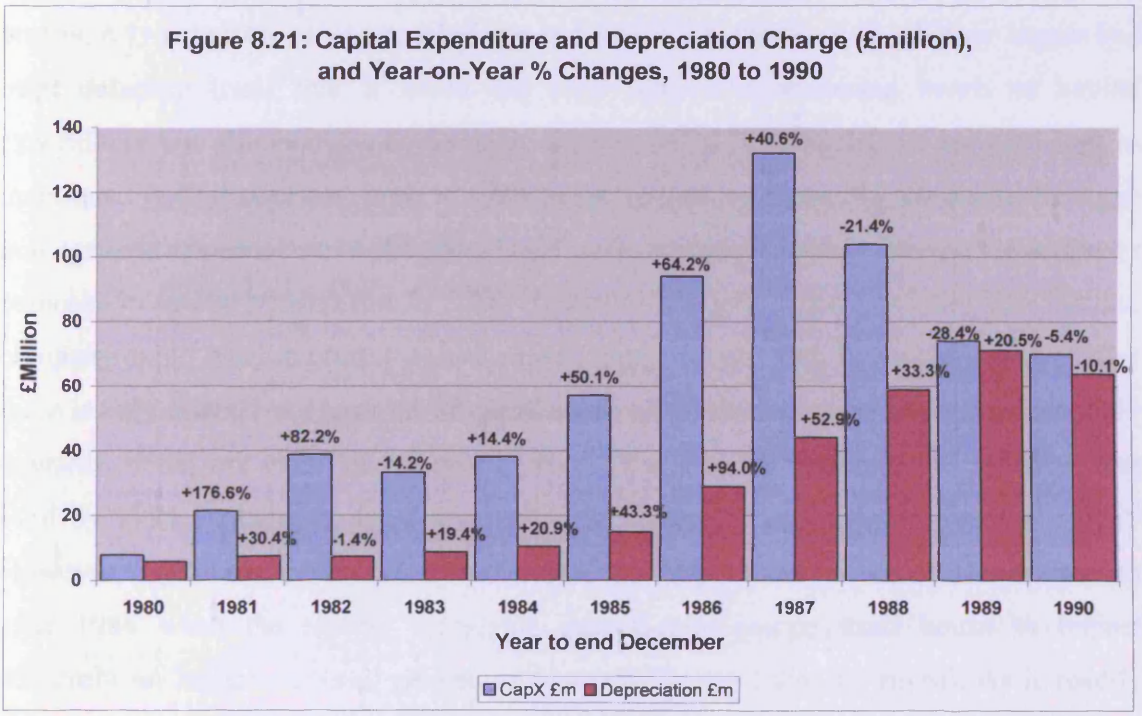
of Sales, resulting in additional profits dilution, and thus demonstrating another area where control of costs could have been improved.

8.4.6 Capital Expenditure and Depreciation

As was made apparent in Chapter Six, a considerable amount of investment in new technology and manufacturing systems was required in order for Jaguar to achieve higher productivity, and ensure improved levels of quality and reliability. At the time of its privatisation in 1984, Jaguar was forecasting that it would invest annually the equivalent of some 10% of its sales revenue[41], a target that was exceeded only in 1987 if the costs of the Whitley Engineering Centre are excluded.

Figure 6.4 above showed capital expenditure as a proportion of sales revenues in the period 1980 to 1990. Figure 8.21 shows the levels of capital expenditure, and depreciation charges, from 1980 to 1990.

Figure 8.21: Capital Expenditure and Depreciation Charge (£million), and Year-on-Year % Changes, 1980 to 1990



Source: Jaguar Annual Reports and Accounts 1984 to 1990; Jaguar Offer for Sale document, 1984

[41] Bhaskar, K N *et al. Jaguar: An Investor's Guide.* p19.

Jaguar's Annual Reports and Accounts record that capital expenditure was increased gradually to Jaguar's stated target of 10% of turnover but this, as already stated, was achieved only in 1987 if Whitley is excluded. Whitley resulted in additional expenditure - stated as £10million in 1985 (17.5% of the total capital expenditure for the year), £18million in 1986 (19.2% of the total), £32million in 1987 (24.2% of the total), and £15million in 1988 (14.6% of the total). The realisation by mid-1988 of the downturn in its prospects, and the extent to which this would exacerbate a deteriorating cash flow, and reduce further profits as a result of increased depreciation charges, led Egan to announce that Jaguar's capital expenditure plan for 1988 had been "trimmed from the £140m forecast in March to £120m".[42] In the event, it was trimmed further, and emerged finally at £103.8million. Although in early 1989 Jaguar was forecasting annual capital expenditures of between £100million and £110million[43], the downturn in the company's fortunes in that year forced a further reduction, to some £74million.

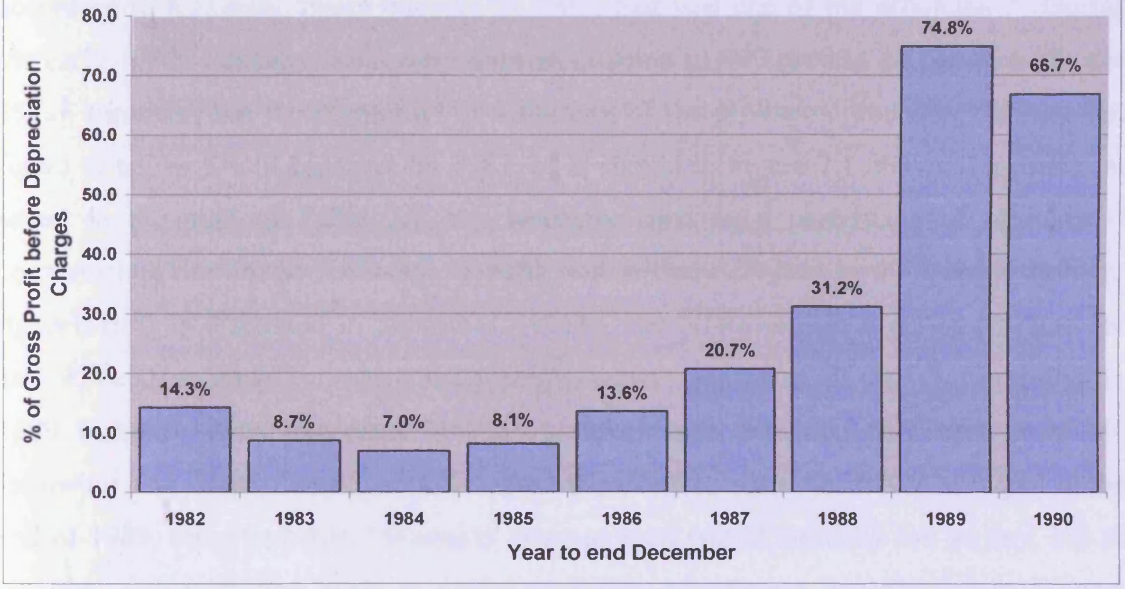
Of course, given the impact of increased levels of depreciation on Jaguar's profits, it is arguable, as was pointed out in Section 6.5 above, as to whether Jaguar had been deluding itself that it could not only fund ever-increasing levels of capital expenditure but also bear the consequent dilution on its Profit and Loss account. But, as mentioned in Chapter Four, prior to 1986 and the problems caused by the XJ40, the Egan management appeared to be deluding itself over a range of issues. Despite the enforced cutbacks in capital expenditure in 1988, Egan was adamant in the following year that the company could fund the heavy future capital requirements from its own resources.[44] But there is little doubt that Jaguar itself, particularly given the downturn in profits from 1989 onwards, could not even have began to fund from its own resources the £1billion that Ford by 1994 expected to have invested in the company in the seven years to 1996.[45] However, capital expenditure levels only became a major issue for the Egan management after 1986 when the rapidly increasing depreciation charge itself began to impact adversely on Jaguar's overall profits, as Figure 8.22 and Table 8.1 reveal. As is readily

[42] *Automotive News* 13 June 1988.
[43] Jaguar Analysts Results Briefing. 16 March 1989.
[44] Sir John Egan Evidence. 8 November 1989. "Trade and Industry Select Committee: Special Shares and the Department of Trade and Industry. Minutes of Evidence 13 December 1989 (Printed with HC 617-i 1988/89)". *Parliamentary Papers.* 1989-90. vol XIV (**HC 90-i**). p6.
[45] *Financial Times.* 28 September 1994.

apparent, the increased level of depreciation charges by 1989, in itself, had a significant adverse impact on gross profits.

It is also relevant at this point to explore briefly the relationship between capital expenditure and labour costs. Given that much of the expenditure was aimed directly at modernising plant and systems it could be expected, as was discussed in Section 6.6 above, that a proportion of such expenditure would result in the substitution of capital for labour. However, this was not the case. As was shown in Figure 6.7 above, employee numbers increased every year from 1983 to 1988, dropping only slightly in 1989 and 1990, and labour costs increased continually from 1983 to 1990, despite the significant increases in capital expenditure up to 1987 shown in Figure 8.21.

Figure 8.22: Depreciation as % of Gross Profit before Depreciation Charges, 1982 to 1990



Source: Jaguar Annual Reports and Accounts 1984 to 1990; Jaguar Offer for Sale document, 1984.
Note: the figures for 1980 and 1981 are excluded from this Figure since both years incurred losses, and although 1981 reported a gross profit it was insufficient to cover depreciation charges, which accounted for 140% of gross profit before depreciation

8.4.7 Warranty Costs

Jaguar treated warranty costs as a direct charge to the profit and loss account, a provision being made for each vehicle sold during the financial period, based on actual cost

experience. If not incurred during the financial year of the sale of the vehicle this provision would be shown as an accrual on the balance sheet. However, whilst warranties were quantified in the 1984 Offer for Sale document as £32.7million at 31 March 1984, of which £18.1million fell due after more than one year[46], Jaguar thereafter steadfastly refused to disclose their level. The changes in the accruals figures provided in the Annual Report and Accounts do provide a good indication of the extent of, and changes in, Jaguar's warranty costs, but they do not necessarily correspond with the actual amount charged during the financial year due to claims made on vehicles sold in the same financial year as the claim, and since unused provisions may have been written back to the profit and loss account. However, Edwards was able to provide the actual warranty costs during the 1980s, and these are shown in Figure 7.1 above and Table 8.1 above.

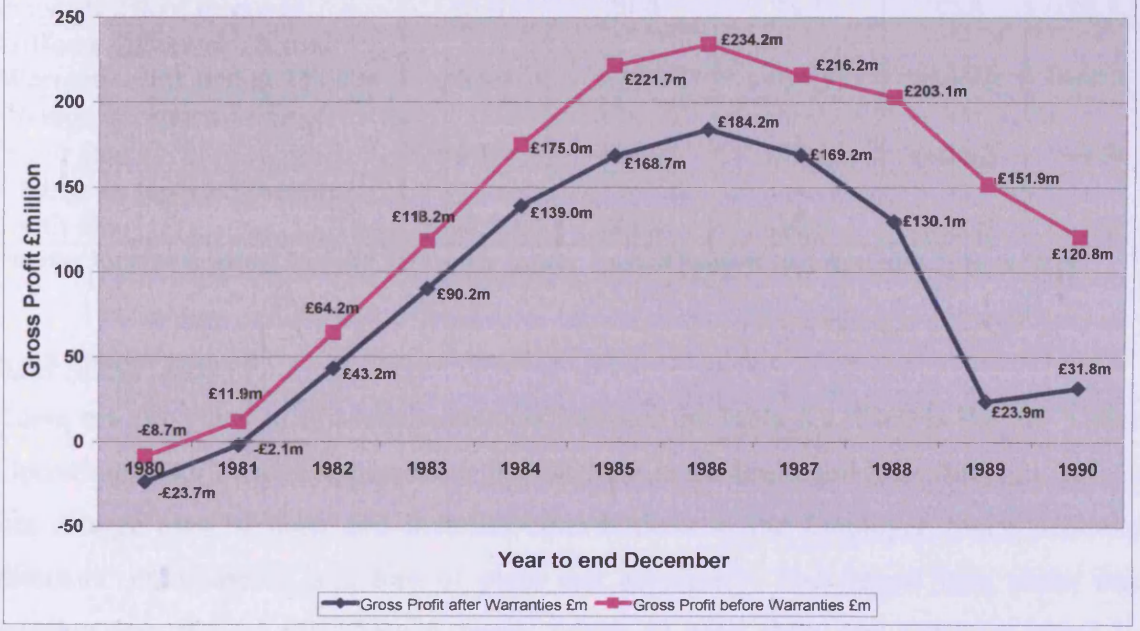
The major quality problems suffered by Jaguar when Egan joined the company have been detailed in Section 7.6 above. These resulted in warranty costs that, according to Edwards, "were massive in 1980; that was one of the problems".[47] During the early 1980s warranty costs were running at some £1,000 per car, or between 6% and 9% of turnover, but the resolution of a number of the problems gradually reduced this figure to below 5% of turnover by 1987, as is shown in Figure 7.1 above. (However, as stated in the note to Table 7.1, the warranty costs as a percentage of turnover is conservative, due to the inclusion of parts and military engines in the overall turnover figure). But, as discussed in Section 7.7 above, the XJ40 became a major problem for Jaguar, being a model on which the warranty costs "got out of control"[48]. Certainly, by 1989 warranty costs exceeded 11% of turnover, and remained at a high level the following year. Here, Grant, commenting on the situation when he arrived at Jaguar at the end of 1989, remarked that, "Warranty costs at Ford would typically run at, say, 2% of revenue, and marketing costs at closer to 9-10% of revenue, broadly across Europe. Jaguar got it the other way round".[49] In this regard it should be added that although the combined marketing and warranty costs as a percentage of revenue would, on this basis,

[46] Jaguar Offer for Sale document 1984. p14.
[47] John Edwards Interview. *Appendix* p53.
[48] John Edwards Interview. *Appendix* p53.
[49] John Grant. Interview with the author. January 1993. *Appendix* p92.

be the same for the two companies, Grant made the point that Jaguar's marketing costs as a proportion of revenues did not have to be as high as they were for Ford.[50]

The escalation of warranty costs from 1987 onwards obviously had a marked impact on Jaguar's profits, as may be seen from Figure 8.23, where levels of gross profit, both before and after warranty costs, are plotted. After several years, with the exception of 1985, when warranty costs as a proportion of revenues continually fell, and two years when the actual costs gently declined, the dramatic increase from 1988 onwards had a significant direct adverse impact on gross profits, and which of itself accounted for a considerable part of the profits downturn in these years.

Figure 8.23: Impact of Warranty Costs on Gross Profit, 1980 to 1990



Source: John Edwards; Jaguar Reports and Accounts 1984 to 1990; Jaguar Offer for Sale document 1984.

Table 8.2 provides an indication of the impact on Jaguar's gross profits, and pre-tax profits, by comparing the actual warranty costs with those that would have resulted from a constant rate of 2% of turnover, in line with that experienced by Ford. As can be seen, the difference between the actual and 2% rates exceeds the downturn in both

[50] John Grant Interview. *Appendix* p94.

profit measures in the period 1986 to 1988, and accounts for nearly all of the profits downturn in 1989. Moreover, the increase in actual warranty costs in 1989 accounted for over half the profits downturn in that year. It is of note also that in 1990 gross profits increased by £7.9million whilst warranty costs reduced by £39.1million, demonstrating at that time the influence of factors other than warranty costs on the company's profits.

Table 8.2: Impact of Increased Warranty Costs on Gross Profits and on Pre-Tax Profits, 1986 to 1990.

Year to end December:	1986	1987	1988	1989	1990
Warranty Costs £m (as per Figure 7.1)	50.0	47.0	73.0	128.0	88.9
Change in Warranty Costs £m	-3.0	-3.0	+26.0	+55.0	-39.1
Warranty Costs £m at constant 2% of turnover	16.6	20.0	21.5	22.8	20.3
Difference between actual Warranty costs and at 2%. £m	+33.4	+27.0	+51.5	+105.2	+68.6
Change in reported Gross Profit £m	+15.5	-15.0	-39.1	-106.2	+7.9
Change in reported Pre-tax Profit £m	-0.5	-23.8	-49.5	-105.8	-7.9

Source: Figures supplied by John Edwards; Jaguar Annual Reports and Accounts 1986 to 1990.

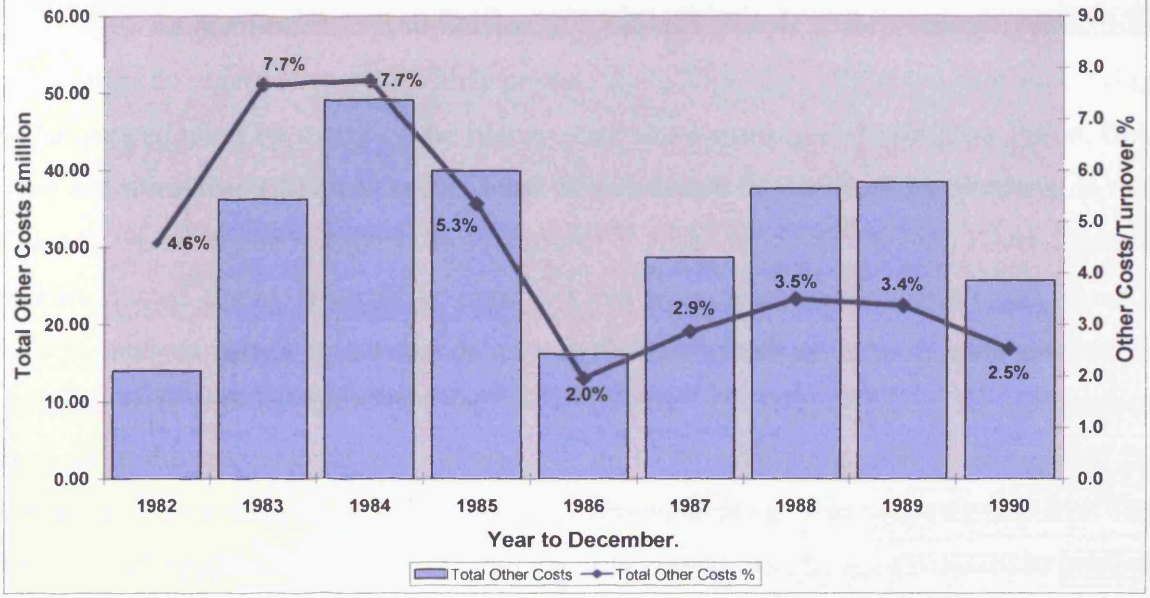
8.4.8 Other Costs

There are two lines of miscellaneous cost included in Table 8.1. First is that of "Other Operating Costs", which appears as a discrete item in the Profit and Loss Account. This is not a large area of cost, and includes contributions to the Employee Share Scheme, directors' emoluments, and hire of plant and machinery. The largest item under this heading was that of the Share Scheme, which in both 1985 and 1986 amounted to £6.4million (over 70% of the total in both years). The marked fall in the "Other Operating Costs" figure after 1988 results from the ending of the Scheme following the Ford takeover.

The second line, that of "Balance of Costs", is a residual figure, but with the exception of the inclusion of employee costs in 1980 and 1981, no single aspects of cost can be identified from the company's Annual Reports and Accounts. It is of note, however, that there was a distinct pattern in the movement of these costs, as may be seen

from Figure 8.24, which shows the changes in the total of "Other Costs". Of note is the marked rise in these costs after 1982, the sharp fall in 1986, and then a further increase.

Figure 8.24: Total Other Costs (£million), and as % of Revenues, 1982 to 1990



Source: Jaguar Annual Report and Accounts 1994 to 1990; Jaguar Offer for Sale document 1984.

8.5 Cash Flow

In 1988, with the prospects of a major profits downturn, Jaguar began to focus on, and direct the attention of the financial community towards, its strong cash positions. After all, as Smith, among others, was later to point out, "Profits are someone's opinion whereas cash is a fact".[51] On this view, as long as Jaguar could generate sufficient cash to pay its bills, profits didn't matter that much, at least in the short term. Contingency plans seem to have been discussed by the Jaguar management following the October 1987 stockmarket crash, with the company subsequently quietly informing the financial community in a series of private meetings that, in the event of a major problem, such as from a further major downturn of the US Dollar, "We'll run the business for cash - reduce capital expenditure, slow research and development activities, and so on".[52] Obviously, in

[51] Smith, Terry. *op cit.* p200
[52] John Edwards. Meeting at BZW (stockbrokers) December 1987 (Author's own contemporaneous notes).

the first few months of 1988 this action was not regarded as being necessary, since at that time Jaguar announced planned higher levels of capital expenditure for the year. But it was a plan that Jaguar was forced to put into effect to some degree in 1988 when the extent of its financial problems became apparent, as was pointed out in Section 8.4.6 above.

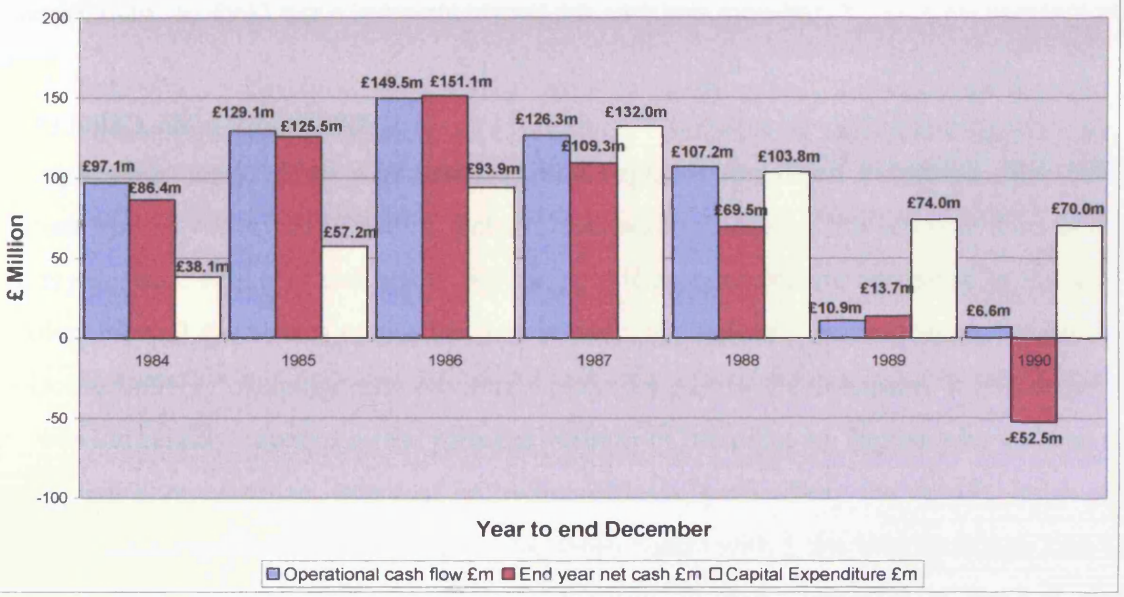
As mentioned in Sub-Section 2.4.2 above, Jaguar's accounting treatment of profits may be regarded as being fairly conservative, being free of the creative accounting techniques adopted by many of the highly acquisitive companies during the 1980s. But, there are a number of areas, as has been demonstrated in the previous sections of this Chapter, where Jaguar's Reports and Accounts conceal rather than reveal. Given Smith's maxim, quoted above, it might be expected that a more indicative measure of Jaguar's success, and its ability to survive as an independent company, was its cash generation ability, and its cash balances. But here there are problems in undertaking an independent analysis of the cash aspects since it was not until 1991 that companies were required by law to publish a cash flow statement. This provided far greater transparency than the Sources and Applications of Funds statement that companies had been required to publish previously, and which Smith regards as not having been terribly useful.[53] Even so, these particular Jaguar statements do provide a sufficient indication of Jaguar's cash flow for the purposes of this thesis.

Cash inflow is largely the sum of pre-tax profit plus the depreciation charge for the year, whilst for Jaguar the main cash application was capital expenditure, plus some £30million to £50million in respect of dividends and taxation. Figure 8.25 shows Jaguar's cash flows, year-end cash balances, and capital expenditures from 1984 to 1990. Obviously, with Jaguar's profits increasing significantly in the period to 1986, and cash flow well-covering capital expenditure, it was easy for it to build up its cash balances, which reached a peak at £151million at the end of 1986. But in 1987 the increased capital expenditure exceeded cash generated, and had to be funded from cash reserves. This was fine as a short-term measure, but the continued downturn in profitability required Jaguar to address the more fundamental issues, which it did only partially. As mentioned in

[53] Smith, Terry. *op cit.* p200.

Section 8.4 above, Jaguar in 1988 took action to reduce its costs, including capital expenditure, but it was a case of too little, too late, with costs remaining too high given

Figure 8.25: Cash Flows, Capital Expenditures, and Year-end Net Cash Balances (£million), 1984 to 1990



Source: Jaguar Annual Reports and Accounts 1984 to 1990.

the extent of the downturn Jaguar experienced in 1989, and which was to last for six years before the company was able to return to profit. As can be seen, there was insufficient cash generated in 1989 or in 1990 to fund capital expenditure, or taxation, and the company, by this time owned by Ford, ended 1990 with a negative cash balance of £52.5million. But, the dangers of this situation were not acknowledged by Jaguar, at least not openly.

Indeed, in November 1989, post the Ford takeover bid, Egan was telling the House of Commons Trade and Industry Committee that, "at no time did we run any risk at all of being short of cash", particularly since Jaguar, according to Egan, had yet to utilise agreed lines of credit of £300million with normal commercial banks.[54] This may have been "spin" by Egan, as he sought to maintain the illusion that had been so skilfully created, or it may have been further self-delusion, but when interviewed for this research

[54] Sir John Egan Evidence. 8 November 1989. "Trade and Industry Select Committee". *op.cit.* p6

he was still maintaining that Jaguar could have stayed in business as an independent company despite the 1990s recession.[55] However, it is extremely doubtful whether Jaguar, as an independent company, could have survived the downturn of the next few years, recording pre-tax losses that totalled £735.2million in the six years to the end of 1994. Indeed, Edwards admitted that if Jaguar had still been independent, given the economic scenario, then "in 1992 we'd have got wiped out in a few months".[56]

8.6 Summary and Conclusions

The preceding analysis has demonstrated that Jaguar's downturn in profits after 1986 resulted from a variety of different factors, not merely those on the revenue side of the profits equation. Much of the blame for the problems here can be attributed to the self-delusion of, and the extent of the illusion created by, Jaguar's management. Whilst the US Dollar/Sterling exchange rate obviously played a part in the downturn, it was a factor that was too readily adopted as the principal villain of the piece by Jaguar who refused to acknowledge, or admit to, many of its own problems, particularly the quality issue. As has been shown in Section 8.2.3, Jaguar had been happy with a Sterling exchange rate of $1.88 in 1981, yet by 1988, despite the benefits of price increases in the US and significantly higher sales volumes, was complaining that it could not make profits with a rate at $1.80.

What has been apparent is that the strengthening of the US Dollar in the first half of the decade had posed a significant PR, or image, problem for Jaguar, as explained in Section 8.3.3. Certainly, Jaguar could not admit the extent to which currency movements had propelled its own remarkable profits progression in the years 1983 to 1986 without shattering the illusion it had carefully constructed of itself, and, as has been shown, "spin" had been a very important factor in Jaguar's rehabilitation. Certainly, if Jaguar had admitted that over 50%, and perhaps as much as 80%, of its peak pre-tax profits resulted from favourable currency movements, as revealed in Sub-Section 8.3.3, it is hardly likely that it would still have been held up as a leading example of a successful

[55] John Egan. Interview with the author. October 2007. *Appendix* p68.
[56] John Edwards Interview. *Appendix* p63.

British manufacturing company, and this might have had an adverse impact on sales, and on its share price.

Obviously, there were different, and more real, problems after 1987 when, as hedging positions unwound, strong Sterling diluted Jaguar's overseas revenues, whilst at the same time Jaguar's US sales fell. Few observers at the time questioned that this decline in sales was anything other than the effect of the downturn of the US economy, or the impact of the Stockmarket crash on the demand for imported luxury cars but, in part at least, the fall in its US sales volumes was of Jaguar's own making, due to quality problems with the XJ40, as was shown in Chapter Seven. Indeed, as has been made clear from the above analysis, the vital issue was that of the financial impact of the quality issue, the increased warranty costs being the single most important cost element in Jaguar's profit downturn from 1986 onwards. But, the quality issue also had a devastating, but unquantifiable, impact on revenues due to the consequent adverse impact on US volumes, discussed in Sub-Section 5.6.5 above.

If nothing else, the problems caused by the strength of Sterling after 1987 gave Jaguar a convenient excuse for falling profits. But as Derek Baron, the Chairman of Ford of Britain, was to remark, "You can't get around the exchange-rate problem. What you can get around is the cost problem"[57]. However, as the above analysis has revealed, Jaguar had not only done little to get around its cost problems, but had exacerbated them for, in pushing for ever-higher sales volumes during the mid-1980s, it lost control of its costs in most key areas of its operations, as is apparent from Figure 8.13. Labour costs were a crucial area, but Jaguar's ever-increasing levels of capital expenditure did not seem to have been aimed at the substitution of capital for labour, as had been the trend in most manufacturing industries at the time. On the contrary, Jaguar's higher capital expenditure was accompanied by higher employee numbers at higher rates of pay. So, when US sales volumes fell, Jaguar was left with a level of labour costs that was unsustainable, but which it was slow to correct. The Whitley Engineering Centre was also a source of higher costs, due to the recruitment of significant numbers of additional engineers, the high running costs of what was an expensive facility, and the costs of funding its development. Indeed, it may be argued here that this was a facility that Jaguar

[57] *Sunday Times* 24 September 1989.

could not afford, and which, given its performance, contributed to Jaguar's declining profitability. Certainly, Jaguar seems to have achieved a poor return from its increasing expenditure on R&D and capital expenditure, and which, as has been shown, resulted in profits dilution. As is readily apparent from Figure 8.22, the increased level of depreciation charges by 1989, in itself, had a significant adverse impact on gross profits.

Lastly, in relation to costs, the launch of the XJ40 in 1986 demonstrated the extent to which management had failed in terms of controlling most aspects of the business. Heralded as being easier to make than the saloon it was replacing, the XJ40 should have yielded an automatic 20% productivity improvement, but this did not materialise and the shortfall in efficiency gains, plus the high warranty charges as a result of quality problems, greatly added to the cost base.

The company's financial performance, discussed above, obviously had a direct bearing on its relationship with its City investors, and this is a topic that is examined in the following chapter.

CHAPTER NINE

THE CITY DIMENSION

9.1 Introduction

As a first step to its potential divestment by BL, the Jaguar business was re-registered as a private limited liability company, under the name Jaguar Cars Holdings Limited, in September 1982, the Certificate of Incorporation being issued on 15 October 1982. On 16 June 1984 the company became Jaguar plc, and in August 1984 was listed on the London Stock Exchange through an Offer for Sale of 177.88 million Ordinary Shares at 165p per share, raising £293.5million, all of which went to BL, and indirectly to the government, as the owner and vendor of the company.

As was recounted in Sub-Section 4.2.2 above, the listing of the company on the London Stock Exchange was not the Jaguar management's preferred course of action, but was a move that was determined more by political considerations on the part of the Thatcher Government than by the commercial benefits that would accrue to the company. Unlike many other company initial public offerings, or flotations, there would be no cash inflow to Jaguar itself from the sale of its shares. As Putnam observed, the company was floated merely "with its cashflow, and a half-developed new model", and the funds for new plant were just not available, and could not be generated from operations.[1] Of course, additional cash might have been raised through an Equity Rights Issue, but, as previously discussed in Sub-Section 4.3.2 above, this would have required a radical change in Egan's attitude in regard to Rights Issues and so was never attempted. Of note is that the pressures resulting from market and financial crises after 1987 resulted in a turnaround in Egan's views. He was now prepared to countenance a Rights Issue, even if, as revealed in Sub-Section 4.2.5 above, it was not in the best interests of existing shareholders, in order to maintain, albeit somewhat modified, his aspiration regarding Jaguar's corporate independence through cementing an alliance with General Motors.

[1] Roger Putnam. Interview with the author. November 2006. *Appendix* p123.

A major problem with being a publicly quoted company was that Jaguar's management had no experience of dealing with the City audience, and the specific informational requirements of that audience, and did not handle communications with the City audience at all well. Whilst some Jaguar directors, such as Beasley, saw being a quoted company as putting additional pressures on the management[2], both Edwards[3] and Egan did not regard it as making much of a difference in terms of the way the company was managed. In this respect, however, Egan went on to contradict himself by stating that, "the constant urge to be more profitable next year actually did lead one into making mistakes".[4] Moreover, there was no appreciation, as admitted by Egan, that investors might be prepared to take a long term investment stance, and support the share price, and the company's independence, despite short term downturns, if Jaguar explained the issues fully to them.[5] Indeed, the realisation in 1989 that the shareholders were only interested in the share price going up appears to have come as something of a shock to the Jaguar management[6], and demonstrates the extent to which they were out of touch with their shareholders. As related in Sub-Section 4.3.1.3 above, Blythe, who had previous experience of dealing with US automotive analysts, observed that David Boole adopted an almost arrogant manner when talking to City analysts, an attitude which made Blythe feel uncomfortable.[7] Indeed, from its first dealings with the City ahead of its flotation, Jaguar appeared to regard City analysts in much the same way that it did motoring journalists - merely as another conduit for promoting the company's positive image, and hence enhancing sales of vehicles.[8] There did not appear to be a great deal of appreciation that Jaguar's share price, over which analysts had varying degrees of influence, determined the company's cost of capital.

As already noted, Jaguar did not use its listing to raise cash through a Rights Issue to fund its own development, but it is also somewhat remarkable that Jaguar, unlike many ambitious, expanding, companies in the 1980s, an era of corporate activity that has

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[2] Mike Beasley. Interview with the author. February 2003. *Appendix* p10.
[3] John Edwards. Interview with the author. October 2003. *Appendix* p63.
[4] John Egan. Interview with the author. October 2007. *Appendix* p73.
[5] John Egan Interview. *Appendix* p73.
[6] John Edwards Interview. *Appendix* p62.
[7] Bruce Blythe. Interview with the author. January 1994. *Appendix* p27
[8] John Edwards Interview. *Appendix* p63.

been described, rightly, as "the decade of the deal"[9], took no advantage of its listing to make acquisitions. Indeed, the listing of its shares in the USA in the form of American Depository Receipts (ADRs) on the National Association of Securities Dealers Automated Quotation (NASDAQ) system in November 1985 had little purpose, according to Edwards, other than that of promoting the Jaguar brand name.[10] Such failure to make use of its listing to raise funds for capital investment and to make acquisitions may certainly be regarded as a lost opportunity, and an example of what in regard to corporate governance, discussed in Sub-Section 4.3.3 above, Dedman referred to as the shirking aspect of managerial expropriation.[11]

This present chapter, which is based in part on the author's own experience as a City motor industry analyst during the 1980s, examines the opportunity that was presented to Jaguar by its public quotation, and its performance as a publicly quoted company. Section 9.2 looks at Jaguar's relationship with its City audience, exploring the extent to which Jaguar's management was able to understand, and to satisfy, the requirements of the City regarding communication, and information, from quoted companies. It also discusses some of the dynamics of fund management, considers the role of stockbrokers' analysts, reviews issues such as corporate governance and short-termism, and examines the mechanisms of 'Exit' and 'Voice' in regard to the influence shareholders attempt to bring on the management of listed companies, particularly when they are dissatisfied with the performance of their investee companies. Section 9.3 describes the process of Jaguar's flotation on the London Stock Exchange, and then on NASDAQ, the subsequent share ownership structure, and the implications for Jaguar's ability to remain an independent company. Finally, Section 9.4 examines the factors impinging on the Jaguar share price, noting in particular the extent to which the share price was governed by movements in the Sterling/US Dollar exchange rate, and other factors, over which Jaguar had little or no direct control.

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[9] Smith, Terry. *Accounting for Growth* (London, 1992) p15.
[10] John Edwards Interview. *Appendix* p63.
[11] Dedman, Elisabeth. "The Cadbury Committee recommendations on corporate governance – a review of compliance and performance impacts" in *International Journal of Management Reviews*, Volume 4, Issue 4 (December 2002). p336.

9.2 The City Audience: Requirements, and Jaguar's Response.

In dealing with the City, Jaguar's main task was to satisfy the information requirements of two main groups – the institutional investors, who were the main market for its shares, and stockbrokers, particularly analysts, who played a major role in advising and influencing investors, and whose views could have a significant impact on the share price. The following three sub-sections discuss the dynamics and *modus operandi* of both these groups, and their communication requirements, and the extent to which Jaguar satisfied these requirements.

9.2.1 Institutional Investors.

In the two decades before Jaguar once again became a quoted company there had been a marked change in the composition of the ownership of UK shares which had profound consequences for quoted companies' communication with their shareholders. In 1963, individuals owned some 54% of UK equities, in terms of type of holder, but by 1981 this had nearly halved to 28%. This change resulted from the growth of UK Pension Funds, Insurance Companies, and Unit Trusts, and their increased exposure to equities, as opposed to bonds. These financial, or fund management, organizations had a combined holding of 58% of UK equities in 1981, compared to only 17% in 1963.[12]

As opposed to the private individual shareholder, who had no one to answer to but himself if he lost money through investment, the managers of pension funds, and other financial investing organizations, were paid to look after money that had been deposited with them, and were responsible to boards of directors, or boards of trustees, in much the same way as the managers or executive directors of public companies were responsible to their boards of directors, and, ultimately, their shareholders. Generally, fund managers were under constant and intense pressure from the trustees of pension funds, and, in the case of investment of unit trusts, their boards of directors, to maximise performance, usually measured on a quarterly basis and against some benchmark such as the FT AllShare Index. It might be that the actual Index had declined by, say, 10% in the quarter, but if the fund had declined only 8% then it would have been a satisfactory result, the fund having outperformed (that is, performed better than the Index) despite the

[12] Office for National Statistics. *Share Ownership* (London, June 2001).

fact that the monetary value of the fund had fallen in the quarter. In a number of instances in the 1980s, and increasingly so in the 1990s, underperformance resulted in trustees placing pension funds with external managers, and the sacking of the in-house investment managers. Likewise, if a pension fund was being managed externally, then poor performance might result in the trustees moving the fund to a different external fund management company. Given the pressure on them to constantly outperform came a greater requirement from fund managers to reduce risk, and hence for the monitoring of company performance, and an anticipation of future performance, not only of the company's financial results but also in terms of share price movements. Hence the increasing concern with, and emphasis on, good corporate governance which became apparent in the 1980s in those institutions, particularly pension funds, that adopted long term perspectives in regard to their various shareholdings. The assessment and monitoring of risk became paramount in a decade which, as noted in Sub-Section 4.3.3 above, witnessed some spectacular corporate collapses. Given the City *caveat*, often appearing on investment application forms as a warning to potential private investors, that, "Past performance is not necessarily a guide to the future", it is hardly surprising that successful investment in equities was viewed as more art than science, with the potential risks involved having to be understood, as far as was possible, and balanced against the potential returns.

However, the stance adopted by institutional investors towards corporate governance, and in regard to direct involvement with the companies in which they had shareholdings, depended on a number of inter-related factors, including those of the reasons for the purchase of the holding, the type of investment fund involved, and its size, and a defined time horizon. The type of fund would invariably dictate the main reason for purchase of a particular share, with, for example, Income Funds looking for stocks offering the prospect of better than average yields from dividends; their only concern was that of the security of the dividend payment, and would sell a holding once the yield fell below a benchmark level, irrespective of an otherwise good financial performance from the company. Other types of fund included High Performance Funds seeking holdings in companies offering the prospect of above average earnings growth over a defined period, and Trading Funds looking to realize short term profits through actively buying and

selling shares. Thus, a share might be bought by a Trading or a High Performance fund in the belief that it would increase in value by, say, 10%, over the next six months, and once this objective had been met, if only within a few weeks, would be sold again. Such profit-taking was a normal part of stock market activity, but was never really understood by companies and led to industrialists, particularly in the mid-1980s, accusing fund managers of " 'short-termism' in their eagerness to accept takeover bids and their unwillingness to back companies prepared to invest in the future at the expense of today's profits".[13] However, in many cases such apparent outrage seemed to be more concerned with excusing, or disguising, corporate failings than a response to disloyalty by institutional investors. Interestingly, as Golding observes, whilst short-termism became the subject of a vigorous public debate in the late 1980s and early 1990s, the issue subsequently virtually disappeared from view.[14]

An important aspect of institutional investment, particularly in the 1980s, irrespective of the type of fund concerned, was that of stock-picking. This term relates to the fact that fund managers would include in their portfolios only those stocks which would satisfy certain criteria. For long term funds especially, financial aspects, such as the strength of the balance sheet, were the most important criteria, but two other factors of importance to long term fund management investors, since they were seen as underpinning a company's future performance, and which are mentioned in many books concerned with the City[15], were:

(i) Quality of management and its track record. Obviously, this, at least in part, tended to be a subjective assessment, but fund managers usually wanted to be able to meet management, in the persons of the Chief Executive and the Finance Director, in order to feel comfortable that the management was both professional and competent. Interestingly, particularly in the light of the comments presented in Chapter Four about the Jaguar management's personal views regarding their own shortcomings, there is no evidence that the City, at any time prior to 1989, ever questioned the competency of the Jaguar

[13] Golding, Tony. *The City: inside the great expectation machine* (London, 2003). p180.
[14] *Idem.*
[15] For example: Golding. *op.cit.* pp171-3.

management in terms of its ability to manage the company. The fact that Egan, in particular, had no previous experience of motor vehicle manufacturing was something that never received comment.

(ii) A clear, believable, and achievable strategy. As indicated in Sub-Section 4.3.4 above, Jaguar never formally articulated a long term strategy to a public audience, such as the City, and consequently there was always some doubt as to what the company's goals might be. Jaguar's only stated objective was to increase its sales and output of motor vehicles, both in regard to the existing models, and through the launch of new models. This was not a strategy that most analysts or investors were completely comfortable with, particularly given Jaguar's high degree of exposure to the US market, and hence the US Dollar.[16] Also, as was pointed out above, the 1980s was a decade of considerable corporate activity, with the likes of Williams Holdings, BTR, and Hanson, growing rapidly through acquisition, the combined value of UK mergers and acquisitions increasing from £1.5billion in 1980 to £26.1billion in 1989.[17] There was some concern, therefore, that Jaguar looked somewhat exposed as a result of its limited focus in terms of markets and products, and the nature of the competition it faced, as discussed in Chapter Five (see especially Sections 5.4 and 5.5, above).

But another important factor was the fund manager's stance with regard to the market sector within which the stock was classified. A particular sector, for example, might be avoided completely if it was perceived that the risk factor attached to the industries, or the companies, classified within that sector was too high. Alternatively, a fund might be highly positive about a particular sector in relation to that sector's likely performance relative to the market overall, and adopt an overweight position, or be cautious about a sector and adopt an underweight position. Thus for example, in the mid 1980s the motor sector accounted for some 6% of the total value of the FT AllShare

[16] Hoare Govett Investment Circular, 1 August 1984; Bank in Liechtenstein Investment Circular, 28 October 1985; Prudential-Bache Investment Circular, 13 April 1987.
[17] Smith. *op.cit.* p15.

Index. A fund that had, say, 8% of its total value in the motor sector would be said to be overweight in the sector, and underweight if the holding was below 6%. Generally, a fund would have a limit, defined by its actuaries, as to the amount that the fund might be overweight in a particular sector. So, if a sector performed particularly well and the sector's weighting in the fund consequently, for example, doubled, then the fund might be forced to sell some of its holding in the sector in order to bring the weighting more into line with the benchmark set by its actuaries.

Such selling activity for this and other examples cited above can best be described as being "technical" since it did not depend on a fund manager's view on a company. Neither could it be construed in any way as resulting from disappointment with a company's performance, or being an attempt to influence the board of a company, for example, to replace the Chief Executive, or an attempt to adopt corporate governance best practice. Such "technical" buying and selling of shares in the 1980s increased also from the growth of Indexed, or 'Tracker' Funds. This type of fund sought to eliminate the problems of underperformance by holding stocks that reflected the composition of the Index concerned. Thus, if a particular stock accounted for 1% of the Index then 1% of the total value of the fund would be held in that stock. Consequently, the performance of the fund would parallel that of the Index, and so could never underperform the Index, but, on the other hand, could never outperform it either. Changes in the actual constituents of an Index, and the issue and cancellation of shares by companies (both of which were common features in the deal-driven 1980s) resulted in a constant need to buy and sell shares in order to rebalance the fund.

"Technical" selling aside, it is obvious from the discussion above that certain types of funds, such as High Performance funds, did have short-term time horizons, but there is little evidence that this was widespread among institutional investors. Indeed, Gaved points to studies which show that institutional investors regularly supported incumbent management teams and played a major role in thwarting hostile takeover bids, and that half the bids characterised as 'hostile' actually failed.[18] However, short-termism was not an accusation that could be levelled at the City alone for it was a phenomenon that was to be observed among many listed companies. The argument here was that

[18] Gaved, Matthew. *Ownership and Influence*. (London, 1994). p15.

investors had become too focused on short-term profits and changes in share prices, and had failed to probe deeply enough into companies' long-term performance. Consequently, corporate managers took measures to make their profits look as good as possible in the short term, often to the detriment of their company's long term health. Indeed, as has been noted by Smith[19], many companies in the 1980s engaged in misleading and even fraudulent accounting practices to inflate their short-term profits, a sentiment expressed also by Carty[20] who showed that merger and acquisition accounting throughout the 1980s had been abused by companies. There was also a certain irony in the situation relating to many pension funds in that the pressure on fund managers to perform came from the trustees, many of whom in the case of company pension funds were directors or employees of quoted companies. As Plender noted, most large companies regarded the pension fund as a profit centre, a good short-term profit by the pension fund allowing the company contribution rate to be set at a level that boosted company earnings.[21] Thus, the impulsion to short-termism by pension funds would often come from the very corporate directors who accused the City of short-termism.

Pension funds, looking to fund pension payments in, say, ten years' time, generally had the longest time horizons, typically purchasing a stock for five years or more. Here, Lindey claimed, in 1996, that UK pension funds held their equities on average for about eight years.[22] However, in the 1980s even pension funds would set longer term share price targets (relative to the market) and would sell the holding once the price has reached that target unless new information had led them to review those targets. Longer term funds also tended to dispose of their holding if a company produced unsatisfactory results, or failed to adopt corporate governance best practice, although after 1990, when recession hit, fund managers "found themselves forced to adopt a more interventionist stance towards their investments".[23] The options pursued by institutional

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[19] Smith. *op.cit.*

[20] Carty, James. "Accounting for Takeovers" in Cosh, Andy, Hughes, Alan, Singh, Ajit, Carty, James, and Plender, John. "Takeovers and Short-termism in the UK". *Institute for Public Policy Research. Industrial Policy Paper Number 3.* (London, 1990) pp21-32.

[21] Plender, John. "Some Policy Options" in Cosh *et al. op.cit.* pp33-45.

[22] Lindey, Geoff. "The Myners Report and Greenbury" in Westall, Andrea (ed). *Competitiveness and Corporate Governance.* (London, 1996). p38.

[23] Golding. *op.cit.* p180.

investors in seeking to influence corporate boards may be considered in terms of Hirschman's concepts of 'exit, voice and loyalty'.[24]

Although Hirschman's analysis was concerned primarily with the options available to dissatisfied customers of a company, or members of an organization, it has been applied by various scholars[25] to the responses of institutional investors when dissatisfied with the performance or behaviour of a company, particularly as a response to decline as evidenced in reduced profits or dividends. In these instances investors may choose to "Exit", that is, sell their shares, and as a result of the consequent fall in the share price "management is impelled to search for ways and means to correct whatever faults have led to exit".[26] Alternatively, investors may prefer to retain their shares and exercise their "Voice", expressing "their dissatisfaction directly to management or to some other authority to which management is subordinate or through general protest addressed to anyone who cares to listen."[27] As a result, management once again is impelled to correct whatever faults led to shareholder disquiet. Thus, "management ....engages in a search for the causes and possible cures of dissatisfaction"[28], and "Voice" may be best defined as an "attempt to change rather than escape from an unsatisfactory situation"[29]. Finally, "Loyalty" is the special attachment that "holds exit at bay and activates voice", inducing investors to stay on in "the hope...or reasoned expectation that improvement or reform can be achieved from within".[30]

Of these options, most writers have noted that "Exit" has normally been preferred to "Voice". However, "Exit" might prove costly, especially when a company is in difficulty and the share price is likely to be depressed. In this situation, investors might decide to hold their stock, but remain passive in the assumption that their ability to change the strategy of the directors is minimal, or alternatively they might opt to exercise

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[24] Hirschman, A.O. *Exit, Voice and Loyalty. Responses to Decline in Firms, Organisations and States.* (Cambridge, Mass., 1970)

[25] For example: Dedman *op.cit.* p347; Dimsdale, Nicholas "The Need to Restore Corporate Accountability: An Agenda for Reform" in Dimsdale, Nicholas, and Prevezer, Martha (eds). *Capital Markets and Corporate Governance.* (Oxford, 1994). p20; Gaved *op cit.* pp11-12.

[26] Hirschman. *op.cit.* p4.

[27] *Idem.*

[28] *Ibid.* p33.

[29] Lloyd-Jones, Roger, Maltby, Josephine, Lewis, M.J., and Matthews, Mark. "Corporate Governance in a Major British Holding Company: BSA in the Interwar Years" in *Accounting, Business & Financial History*, Volume 16, Number 1 (March 2006). p71.

[30] Hirschman. *op.cit.* p77.

"Voice", utilizing the opportunities afforded by the governance mechanisms of public companies to hold directors to account through, for example, the company's Annual General Meeting (AGM). Here, Lloyd-Jones *et al* provide a well-documented account of how disgruntled BSA shareholders, largely individuals, in the 1920s and 1930s used "Voice" in the company's AGM and elsewhere to force changes in the company's governance.[31] But, by the 1980s, as noted above, institutions had become the largest, and most important, investors in UK equities, and as Dimsdale observed, institutions did not generally intervene at AGMs to express their dissatisfaction. Dimsdale, writing in 1994, pointed out that, "major financial institutions have not until recently put greater pressure on boards when they are concerned about the fortunes of a company. These institutions could bring about changes in a board and possibly displace a CEO. Frequently this has not happened.....'Exit' has frequently been preferred to 'Voice' ".[32] However, Gaved, also writing in 1994, observed that, "For institutional investors, making the choice *between* exit and voice is the exception rather than the rule – in most cases neither choice is exercised and investors do nothing".[33] Bowden provided support to this view, observing that, "City/industry relations and the operation of the external mechanisms of corporate governance have rarely in the United Kingdom been dominated by either the full exit (that is, the disposal of all equity holdings in a given company) or the voice strategy"[34], and introduced another option, that of "Limited Exit", arguing that this was "the key option". In the exercise of this option, "the principal sells sufficient shares to effect a fall in the market price which makes the company vulnerable to take-over. This gives warning to management that unless performance is improved, they are at risk of displacement".[35]

However whilst Hirschman's concepts of 'exit, voice and loyalty' provide a means for understanding the ways in which customers respond to dissatisfaction with companies, it is a framework which in respect to investor behaviour appears to be little more than a truism. Certainly, there is not a great deal of empirical evidence to support its

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[31] Lloyd-Jones *et al. op.cit.*
[32] Dimsdale. *op.cit.* p20.
[33] Gaved *op cit.* p99.
[34] Bowden, Sue. "Corporate Governance in a Political Climate: The Impact of Public Policy Regimes on Corporate Governance in the United Kingdom" in Parkinson, John, Gamble, Andrew, and Kelly, Gavin (eds). *The Political Economy of the Company.* (Oxford – Portland, 2000). pp184-5.
[35] *Ibid.* p185.

premises in regard to specific cases. Investors may well "Exit" as a result of dissatisfaction with a company's performance, but "Exit" is as likely, if not more likely, to occur as a result of the "technical" factors discussed above. The problem is that without knowing an investor's reasons for his actions, it is impossible to conclude that a particular instance of selling is an "Exit" in the Hirschmanian sense of the term. Similarly, in the 1980s, whilst "Voice" undoubtedly did occur there is very little evidence of specific overt "Voice" activity, in contrast to the BSA example stated above, with "Voice" being restricted to private meetings between investors and the management of the companies concerned, or conducted through an intermediary such as a stockbroker. It may also be argued that the prospect of a hostile bid may not only inhibit "Exit" altogether, but also lead to further share purchases, since investors may stand to get a better price from the potential bidder than from the market. Also, the prospect of a hostile bid adds an incentive to fund managers to abstain from "Voice" activity. The risk for the investor is what price the bidder would pay. Finally, it may be argued that "Loyalty" may merely represent investor inertia. In certain instances, however, the decision to retain a disappointing stock may result from a fund manager not being prepared to admit that he made a mistake in buying the stock in the first place, which an "Exit" might be taken as implying. These concepts and issues as they related to Jaguar are discussed in Sub-Section 9.2.3 and Section 9.3 below.

9.2.2 Stockbrokers

Although it was possible to transfer shares without going through the stock market itself, in practice all share trading was channelled through stockbrokers who placed the business with various jobbing firms on the floor of the Stock Exchange. The constant interaction between jobbers and brokers on the floor of the Exchange resulted in a fairly free flow of information about trading in a particular stock, and enabled a company's corporate broker, discussed below, to provide feedback to its corporate client regarding movement in the client's share price or volumes traded. This was something that was changed following the City's "Big Bang" in October 1986 (see page 332).

To assist fund managers with their assessment of a particular company, and its shares, not only at the time of initial investment but also in regard to keeping investors

informed of any changes that might affect that investment once made, stockbroking firms employed researchers, or "analysts", to provide information about various companies to the fund managers. It was these stockbrokers' analysts who were the primary City audience for companies seeking to communicate their financial results and other developments to the fund management community, although the larger organizations such as the Prudential did themselves employ a limited number of analysts to provide impartial research. Analysts disseminated their views on the companies they researched verbally to their investment clients either in one on one meetings or by telephone, or would write an investment, or research, note on a company and its shares which would be printed and circulated to a firm's institutional investment clients. Generally, an analyst would write a fairly lengthy research review on a company ahead of the company's initial public offering, or when some important development occurred (such as a merger), or when initiating research coverage of a major company, and would write fairly short notes following the publication of a company's Interim (half year) Results, and Preliminary (full year) Results. Usually, on the day of a results announcement a company would hold a meeting with all analysts concerned to provide them with further information concerning the results, and answer any questions they might have. Given that analysts were employed to become expert in the companies and industries that they were researching, they were expected to be able to anticipate problems such as poor financial results, and warn the fund managers accordingly, so that the latter might take appropriate action, such as selling their shares. This was especially true if the reasons for a particular purchase were no longer valid – for example, anticipation of the dividend being cut when the shares had been bought for income, as opposed to growth in earnings.

There were, however, a number of problems with this system, which became more acute following "Big Bang". A major concern was that of the variable quality of analysts, and their work. Undoubtedly, there were analysts who had a very good understanding of the companies and industries they researched, and these often were invited to present papers at industry conferences or seminars, or advise corporate clients on industry developments. However, as Marsh noted, analysts generally were criticised for having "only the haziest understandings of the markets, technology and competitive pressures under which a company is operating; for their failure to ask intelligent or

penetrating questions, particularly about future strategy and innovation; for their failure to detect warning signs in the accounts of some recent corporate failures; and for failing to produce original research".[36] Consequently, much published research was superficial, particularly that relating to company results announcements, and like most newspaper articles merely regurgitated company handouts. The problem, as Marsh correctly identified, lay in recruitment policy, and training and education. Analysts in the 1980s were not required to be graduates, or have any professional qualifications, although most in fact were graduates, and a number had previously qualified as Chartered Accountants. Whenever possible, stockbroking firms recruited analysts from the industries that they were required to research, so that they had some work experience of the sectors concerned. However, in the first half of the 1980s such recruitment was not easy since stockbroking salaries were below those that could be obtained in industry, although a profitable year for a firm could result in bonuses of twice salary being paid. Before "Big Bang" stockbroking firms were required by the rules of the Stock Exchange to be partnerships, and the employees of these firms were required to share some of the partners' risks, in terms of comparatively low salaries, but then enjoyed some of the returns in a profitable year in terms of bonuses.

Once recruited, analysts received only on the job training, stockbroking partnerships being loath to incur expenditure on formal training. If an analyst wished to become a partner in his firm then he had to become a member of the Stock Exchange, which might involve passing its membership exams, but more often was achieved on the basis of experience; that is, the number of years that the individual had been employed in a stockbroking firm. The syllabus for the Stock Exchange exams, however, centred around stock exchange practice, regulation, and the obligations of members. In the mid 1970s the Society of Investment Analysts (SIA) had been founded to provide a professional body and professional qualification for investment analysts. The exams consisted of five papers – two in Techniques of Investment, and a paper each in Introductory Economics, Investment Regulation and Practice, and Interpretation of Company Reports and Accounts. However, there was little incentive to become a member of the Society, and by the mid-1980s membership consisted largely of those who

[36] Marsh, Paul. "Market Assessment of Company Performance" in Dimsdale and Prevezer. *op.cit.* p92.

had joined as founder members, or awarded membership without examination for time served as an investment analyst. However, neither the Stock Exchange exams nor the SIA exams provided much of a preparation for the role of an analyst, Marsh suggesting, quite appropriately, that analysts "would also benefit from a rather broader management education, embracing operations management, marketing, and business strategy, ideally leavened with some first-hand exposure to business and management issues".[37] After "Big Bang" every analyst was required to become a "Registered Representative" before he could advise investors, or publish research in his own name. This involved taking an on-line multiple choice exam, the topics largely involving regulation and stock market practice, but existing analysts were accorded the qualification automatically.

The lack of knowledge or experience of an industry mentioned above was especially true in regard to Jaguar. At the time of Jaguar's privatisation there were few, if any, UK analysts, or fund managers, who had an in-depth knowledge of automotive manufacturers, and the potential risks involved. The reason for this was that analysts, of necessity, focused their attention on UK companies whose shares were actively traded on the London Stock Exchange. At the time of the flotation of Jaguar in 1984 there were no other publicly quoted, actively traded, UK automotive manufacturers, and no reason therefore for UK analysts to have had much understanding of this particular aspect of the industry. Another factor here was that, during the early and mid-1980s, there were few cross-border investment funds in existence, most UK funds being invested in UK equities alone.[38] There was no reason, therefore, for investors to have any knowledge of the operations of the likes of BMW or Mercedes. Likewise, stockbrokers' analysts focused purely on UK companies, and none knew a great deal about the dynamics of vehicle manufacturers. Those analysts who had specialised in motor sector companies had been restricted by the liquidity of shares to focus on component companies such as Lucas and GKN. No one researched BL, 99.7% of whose shares were held by the government and were hardly traded, and few analysts or investors had ever seen inside a vehicle assembly plant and, therefore, had nothing with which, for example, to compare the assembly lines at Browns Lane. Consequently, it was easy, therefore, for Jaguar to foster with UK

[37] *Ibid.* p93.
[38] Golding. *op.cit.* p129.

analysts and investors, at least initially, the illusion of increased efficiency, and to conceal many of its problem areas, and to persuade analysts, in the first few years at least, to accept unquestionably what it reported to them, and then to disseminate that to their own investor clients,

In contrast, the US stockbroker automotive analysts who started following Jaguar much later were far more knowledgeable about automobile manufacturing, having direct knowledge of the manufacturing facilities of Ford, General Motors, and Chrysler, and, in some cases, of plants operated by European and Japanese automotive manufacturers. As a result, they were much less prone to accept the Jaguar "spin" at face value. Here, Grant recalled one European tour by US stockbroker analysts who:

> were visiting Ford of Europe as their last stop. We picked them up in the Ford of Europe plane from Birmingham airport where they had visited Jaguar the previous day, and all the way down in the aeroplane they were talking about the 'Dark Ages' that they had just witnessed the day before, and how astounding it was, and how they were all going to downgrade Jaguar as a result.[39]

Another problem with the stockbroking *modus operandi*, and which Jaguar and many other companies seldom seemed to appreciate, was that stockbrokers made money mainly by buying and selling shares on behalf of their clients, and would constantly be searching for reasons for their clients to buy or sell particular stocks. Institutional investors, particularly Pension Funds, had continual inflows of cash which needed to be invested, and would look to analysts for advice as to which shares offered the best investment prospects. But analysts would also be expected to recommend selling those shares offering poorer investment prospects. Here, however, there were not that many industrial companies that understood that a "Sell" recommendation by an analyst might have little to do with the quality of that particular company *per se*, but reflected the view of the future performance of the company's shares. Often, such a recommendation might be viewed in a bad light by the company involved, with the analyst concerned being accused of "short-termism" by irate corporate managers, and who in extreme cases might refuse further contact with the analyst involved. Generally, the stock market overall, and analysts in particular, were often criticised for being focused only on the

[39] John Grant. Interview with the author. January 1993. *Appendix* p85.

current year prospects. Marsh rejected this assertion, pointing out that there is no evidence "to support the 'myopic hypothesis' that the stock-market has a short-run focus on the current year's reported earnings rather than a multi-year horizon".[40] Indeed, during the 1980s analysts were expected to provide two years' forecasts for the companies they researched, a longer time horizon being thought, by companies as well as the City, to involve too many imponderables to allow quantitative forecasts that could be regarded as anything other than "best guesses". However, research notes appertaining to Jaguar showed that whilst analysts forecasted only two years' actual profits and dividends, often considerable attention was given to other, non-quantified, aspects such as the likely impact of a company's strategy, or the longer term prospects for the industry, or the quality of management, and made Buy or Sell recommendations accordingly.

The dynamics of stockbroking was changed considerably by the de-regulation of the London stock market in October 1986, dubbed "Big Bang". This abolished fixed commission charges, ended the distinction between stockjobbers and stockbrokers, allowed limited liability companies to belong to the London Stock Exchange and to deal in shares, and replaced share trading on the floor of the Stock Exchange with electronic screen-based trading. Consequently, most stockbroking firms became "Securities Houses" making markets in shares, as well as acting as agents. This required more capital than could be afforded by the old partnerships and "Big Bang" was accompanied by a considerable number of brokering firms merging or being taken over by banks, and the entry of a number of new securities houses, particularly American, into the market. Previously, brokers had tended to specialise in particular areas of the market, especially in regard to research, with, for example, perhaps twelve firms providing fairly comprehensive coverage of the motors sector, but after "Big Bang" all firms sought to provide a full research coverage of the market, with the result that the number of motor sector analysts more than doubled. Obviously, many of these analysts were new to the sector, if not the stock market, their research output serving to reinforce concerns among both fund managers and companies regarding the quality of research.

One particular result of "Big Bang", and the lower commissions earned from institutional clients, was that the attention of brokers, many under new ownership, was

[40] Marsh. *op.cit.* p73

focused increasingly on the most profitable parts of their business. Certainly, profits from broking alone in the aftermath of the 1987 "Crash" were dwarfed by those to be made from market-making and corporate advisory work. As a result, analysts started to shift their focus from the interests of their external clients, the fund managers, to their internal clients, the market makers and corporate finance departments. The conflicts of interest which started to develop were increasingly visible to fund managers, who realized that more and more of the information and investment advice they were receiving from analysts reflected internal vested interests. Thus, for example, an analyst might recommend a stock as a "Buy" because his firm's market makers wished to reduce the amount of that stock held on their books. As a result there was a growing amount of direct contact between fund managers and companies, leading to greater use of "Voice" by fund managers, particularly when concerns developed from 1990 onwards about the impact of economic recession. However, this hardly affected Jaguar since it had ceased to be a quoted company by this time. One other change of note following "Big Bang" was that with the introduction of electronic share dealing, there was no longer the interaction between jobbers and brokers on the floor of the Exchange, and market makers in the new securities houses seldom spoke to their competitors. It became very difficult, therefore, for a broker to provide feedback to its corporate clients regarding the reasons for movements in share prices or volumes traded, particularly in terms of whether they resulted from a change in views on fundamentals, or a change in sentiment, or technical factors in the market (see page 341).

9.2.3 Jaguar's Relationship with its City Audience

As mentioned above, Jaguar's management had no experience of dealing with the City audience, or the specific informational requirements of that audience, and did not handle communications with the City audience at all well. Indeed, from its first dealings with the City ahead of its flotation, Jaguar appeared to regard City analysts in much the same way that it did motoring journalists - merely as another conduit for promoting the company's positive image, and hence enhancing sales of vehicles.

In 1984, at the time of the flotation, UK analysts were virtually united in their caution regarding the merits of Jaguar as an investment, pointing to the problems facing

the company and the risks attached to investing in a one-product company heavily dependent on the fickle US market, to say nothing of the volatile currency aspect. Likewise, few fund managers saw Jaguar as being a sound long term investment, being concerned particularly about the likely volatility in the share price given the cyclical nature of the motor industry, and the consequent likely variations in profits. At this time, Egan (doubtless being required to do so by both his legal and financial advisors) was at pains to point out that Jaguar represented "a rich spectrum of risks and rewards".[41] From 1985 onwards nothing further was heard from Egan about the risks, only the rewards, and given Jaguar's impressive profits rise in the period to 1987, at least, few analysts were prepared to do other than be fairly enthusiastic about the company, especially given the continual "spin" emanating from Egan and Jaguar's PR department.

Given this, and impressive increases in profits and a rising share price, it was easy for Jaguar to foster with UK analysts and investors, at least initially, the illusion of increased efficiency, and to conceal many of its problem areas. Whilst Jaguar profits were rising in the years to 1987 it perhaps did not matter that much, although if the reasons for the rise in profits had been apparent it would have given some warning of the potential risks. Those analysts whose detailed analysis suggested that currency benefit in 1985, for example, was responsible for a large proportion of Jaguar's pre-tax profits, were informed that such a conclusion was incorrect when they approached the company for verification before disseminating such a view to investors.[42] Since the consequent promulgation of such findings would, in effect, be calling the company deceitful, they were seldom published by the analysts concerned. But whilst some analysts did often draw attention to the risks posed, for example, by currency factors, none recognised the problem of warranties in respect of the XJ40, let alone attempted to quantify their impact on profits. It was easier to accept, at face value, Jaguar's explanation of the negative impact of the strength of Sterling after 1988, and the downturn in the US market for imported luxury cars. Given that there was much information that was not revealed by Jaguar, as recounted in Sub-Section 2.4.2 above and in various sections of Chapter Eight, it was difficult to argue otherwise. As revealed in Sub-Section 4.3.1.3 above, Jaguar had

[41] Quoted in Blackrod Limited. *Jaguar 'Risk and Opportunity'*. (London, 1984) [VHS Video]
[42] Author's own contemporaneous notes. December 1985.

misrepresented things to the City about the development of the XJ41, or F-type, but there is no evidence that this was ever appreciated by the City audience at the time.

Such issues, and the emphasis on future prospects, demonstrate the aptness of the much quoted aphorism that, for investors, "Perception is greater than Reality". It was this that enabled Jaguar to perpetuate the illusion of success for so long with the City audience, its "major problems being cleverly prevented from tarnishing the company's rejuvenated reputation".[43] Even so, as discussed in Section 9.3 below, a number of UK institutional investors, who had never regarded the stock very highly anyway, took advantage at this time of the rising share price to realise profits. This was not "Exit" in the Hirschmanian definition of the concept. However, when reality overtook perception, in mid-1988, and Jaguar began to fail to realise City expectations, it was abandoned by many of its UK fund management investors, such moves at this time being "Exit" in the Hirschmanian sense. There is no evidence, however, of investors exercising "Voice", although concerns may well have been conveyed to Jaguar through intermediaries such as its corporate broker. However, at this time Jaguar faced increasing criticism from stockbrokers' analysts. Egan did little to restore his management's credibility at this time when he started attacking the views of financial analysts, the *Sunday Times* reporting him as saying that, "City criticisms of his firm had been 'naïve', 'unduly harsh' and 'ill-informed'", that, "the analysts' gloom is premature", and that, "the City will have to get used to varying earnings from a company that is inevitably vulnerable to cyclical and currency swings".[44] This, of course, was merely replaying back to the City the original concerns that it had about the stability of earnings from a motor company. There was, however, some evidence that "Exit" was inhibited to an extent by the prospect of a hostile bid. Indeed, fund managers, and stockbrokers alike took some comfort from the belief that, if Jaguar was having problems, then one of the large automotive companies, such as Ford, General Motors, or BMW, would take it over before it went bankrupt.[45] In the event, of course, the City's pessimism proved more than justified, Jaguar reporting a pre-tax loss of £58.3m in 1989 (Egan having told investors previously that, "Jaguar will make

[43] *Automotive News*. 2 April 1990.
[44] *Sunday Times*. 4 September 1988.
[45] John Edwards Interview. *Appendix* p52.

a good profit in 1989"[46]), and, under Ford's ownership, further considerable pre-tax losses in each of the following five years.

From 1988 onwards there was an increasing cynicism towards Jaguar that became progressively more difficult for the company to counter. Even so, analysts who did not give support to the Jaguar account of events tended to be given short shrift, or otherwise denigrated, by Jaguar's communications department, or by Egan himself, as illustrated above. Overall, however, a more realistic approach to the City tended to be adopted from 1988 onwards when John Edwards, perhaps reacting to "Voice" criticisms regarding the disclosure aspect of Jaguar's corporate governance, played a larger role in engaging with analysts and fund managers. Here, Edwards provided a greater realism in relation to the information made available to analysts, in evident contrast to the propagation of illusion previously encountered. Even so, aspects such as the impact of poor quality and reliability continued to be carefully concealed.

Retrospectively, after the takeover by Ford, Jaguar's obligation as a publicly quoted company to satisfy the requirements of the financial community was used as an additional excuse for it not having attempted to overcome a number of its problems. David Boole, for example, talked about the requirement in the 1980s to "balance the needs of the shareholders and the company".[47] This was a view with which investors might agree in principle, but in practice would be more likely to hold that their own long term interests might best be served by the rapid resolution of a company's problems, even if there was a short-term adverse impact on profits. Investors, therefore, in this instance would be likely to exercise "Loyalty", and be supportive of the company. But, for Jaguar to admit to such problems would have shattered the illusion that it had carefully constructed. Again, Professor Dan Jones, possibly echoing Jaguar itself, was quoted as nominating Jaguar's stock exchange listing as responsible for Jaguar being unable to resolve its "retrograde shopfloor practices" since "Egan.....constantly had to watch the stock price"[48]. Such a statement, however, ignores the fact that Egan, prior to 1984, had had four years to tackle the shopfloor issues without having a share price to worry about.

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[46] *The Times*. 29 November 1988.
[47] *Automotive News*. 12 November 1990.
[48] *Idem.*

9.3 The Offer for Sale, and the Consequent Shareholder Base

As noted above, the Jaguar listing involved the sale of 177.88 million Ordinary Shares. In addition, a further 2.12 million ordinary shares were distributed to directors and employees, taking the total number of shares in issue to 180 million. Henceforth, the only further share issues would be in respect of various employee share option schemes. Also, there was issued a Special Rights Redeemable Share of £1 (the so-called "Golden Share") which could be held only by the Secretary of State for Trade and Industry, acting on behalf of the Crown, and which would be redeemed at par by Jaguar on 31 December 1990. Amongst other things this instrument prevented any single beneficial holding in Jaguar exceeding 15% of the total number of shares in issue, thus in effect preventing a takeover of the company. However, the irony here was that it was the actions of the Secretary of State for Trade and Industry in 1989 in respect of the Golden Share that facilitated the takeover of Jaguar by the Ford Motor Company that was described in Sub-Section 4.2.5 above.

Prior to the listing, Jaguar was still owned by BL, and whilst Egan may have been impatient to exert his independence it was still BL which dictated the appointment of Jaguar's advisors. In the period before "Big Bang", companies undertaking share issues were required to appoint both a merchant bank and a corporate stockbroker, the former to be responsible for the technical and legal requirements of a share issue, and the latter being the essential link to investors - to ensure the orderly distribution of shares to investors and the secondary underwriting of shares by fund managers. The insistence by BL that its own financial advisor, Hill Samuel, be the sole merchant bank involved with the flotation, was the cause of further friction between BL and Jaguar, which had wanted to appoint its own merchant bank.[49] Indeed, following its listing, Jaguar was quick to appoint Morgan Grenfell as its merchant bank advisor, with George Magan as the bank's director responsible for the Jaguar business. BL's long time corporate stockbroker, Laing and Cruickshank, was appointed stockbroker to the offer, but was reinforced by the appointment also of Cazenove & Co, the City's leading corporate broker, and one with an unparalleled reputation for ensuring the success of corporate actions such as new share issues, and which would be appointed Jaguar's sole corporate stockbroker following the

[49] John Edwards Interview. *Appendix* p57.

flotation. The appointment of Cazenove to the Offer was particularly apposite since the UK financial community proved to be not that enthusiastic about the flotation of Jaguar's shares, as mentioned above, and anecdotal evidence at the time suggested that some effort was required by Cazenove to get the offer underwritten by fund managers. The offer itself, however, was eight times oversubscribed, thanks to the enthusiastic interest generated by Jaguar car-owning private investors.

The extent of this interest by individuals in the shares is revealed by the first analysis of shareholdings provided by Jaguar. As at 6 March 1985, some 86% of shareholders held 500, or less, shares each, and some 98% of shareholders held 5,000, or less, shares each.[50] This percentage was unchanged at 98% in the last published Jaguar shareholders analysis of 5 March 1989, but these holders accounted for only 11% of the total of 182.9 million shares in issue by this time.[51] It would thus appear that Jaguar enjoyed the loyal support of its private shareholders throughout the period of it being a public company.

The same could not be said of its institutional investors. Following the listing, there were 133 non-US holders of over 200,000 shares ("large holders"), accounting for some 70% of the shares in issue. These probably were all institutional investors. In mid-November 1985 the listing of Jaguar ADRs on NASDAQ, and the anticipation of that event, provided a large market for Jaguar shares, which allowed UK fund managers to sell their Jaguar holdings into a rising market for the shares. It is of note that the buyers of ADRs in the US tended to be high wealth individuals, who were as enthusiastic about the Jaguar car as were the UK private investors, but unlike their UK counterparts were far more fickle, tending to trade shares more. Furthermore, being highly nervous of potential loss-producing situations they were less likely to exercise "Loyalty" in the face of falling share prices. Indeed, it was easier for UK private investors, who had bought the shares at 165p in the flotation, to exercise "Loyalty" given that throughout the period of Jaguar's listing these UK shareholders had the comfort of their holdings remaining in profit, even following the dramatic share price fall following the October 1987 stockmarket "Crash".

[50] Jaguar Annual Report 1984 p39.
[51] Jaguar Annual Report 1988 p45.

The impact of the US listing on the Jaguar share price was spectacular, raising it from 293p at the time of the introduction of ADRs in November 1985 to 518p a year later, an increase of 77%, and resulted in Jaguar being one of the best performing shares of that twelve-month period. By 4 March 1987, the share price having risen a further 10% to 571p, but off its high of 627p achieved on 27 February 1987, some 49% of Jaguar shares were held in ADR form, and the number of large holders had nearly halved to 74.[52] However, the stockmarket "crash" of October 1987 reversed the position somewhat, with nervous US investors divesting their holdings, so that by 4 March 1988 ADRs accounted for just under 30% of the shares in issue, and large holders, who between them now held some 40% of the shares in issue, had once again increased, to 107.[53] By 5 March 1989 ADR holdings had fallen further, to some 24% of the total shares, and large holders, owning a total of some 45% of the shares in issue, had risen only marginally[54], suggesting that at least some large holders had increased the size of their holdings. What cannot be ascertained, but undoubtedly had some effect on US investor nervousness about Jaguar, is the part played by the realisation by them that quality problems were once again plaguing the Jaguar car. However, speculation about a takeover bid for Jaguar propelled further US buying, so that, by the time of the announcement by Ford, some 50% of the shares were represented by ADRs[55], the majority of which had been bought merely on the prospect of fairly quick profits resulting from a takeover.

9.4 Share Price Performance

Although in the ultimate analysis a company's share price, as with any other price, is governed by the laws of supply and demand, the UK stockmarket is far from being a perfect market, as was made apparent, for example, in the discussion above with regard to "technical" selling. Indeed, the determinants of supply and of demand are often irrational, and price movements are contingent on the availability of shares for purchase. In stockmarket parlance, shares might be "tightly held" (that is, existing shareholders are

[52] Jaguar Annual Report 1986 p38.
[53] Jaguar Annual Report 1987 p43.
[54] Jaguar Annual Report 1988 p45.
[55] David Boole telephone conversation with the author. 20 September 1989 (Author's own contemporaneous notes)

unwilling to sell their holdings), resulting in little share price movement. Thus, the greater the "liquidity" of a stock (that is, the greater the volume of shares that can be traded), the greater the likelihood of changes in the share price. As was revealed in the previous section, the demand for Jaguar shares by US investors was met by UK fund managers reducing their holdings, the increased trading of the shares fuelling further rises in the share price.

Generally, share price changes result from three factors, labelled fundamentals, sentiment, and technical, as discussed fairly fully in most books on the workings of the City.[56] All three factors played a part in the performance of the Jaguar share price over the period of its listing, and it is relevant to this discussion to outline each before examining the part played by them in determining the pattern of the Jaguar share price.

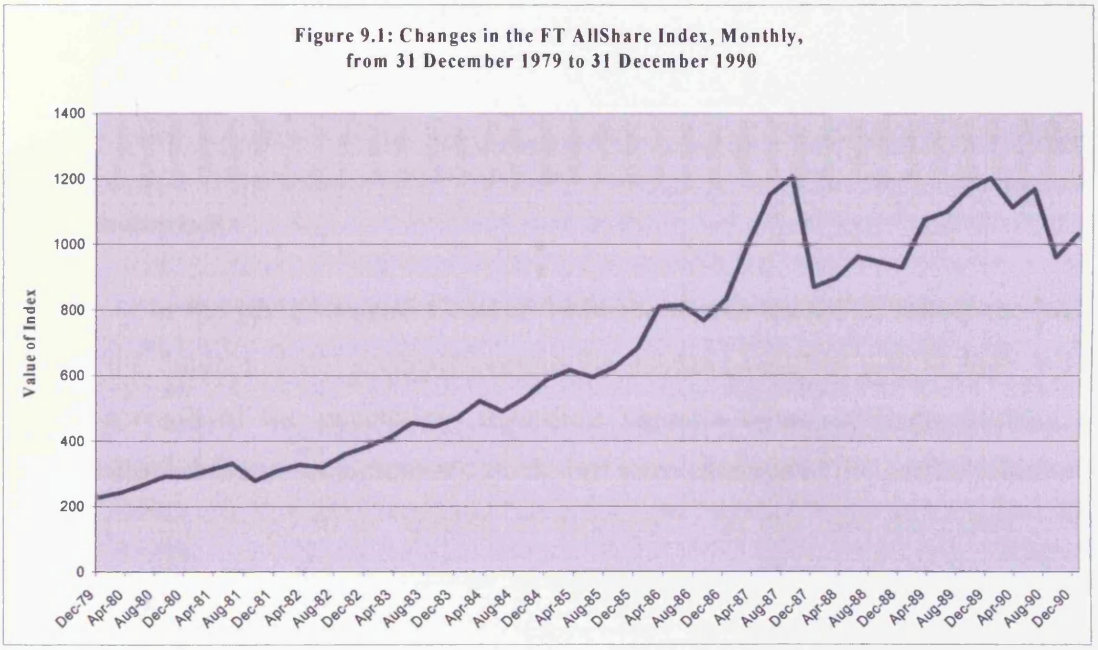
"Fundamentals" refers to those aspects that actually affect a company and its prospects, and will include past and forecast financial performance, and also the share price in relation to these, and to the relative prices of other shares. As such they are readily identifiable, and can be quantified. "Sentiment" is a difficult term to define concisely, but refers to the subjective, and emotional, aspects affecting a share price – the rise in a share price, for example, on the appointment of a new Chief Executive which the market believes might result in improved profitability. Also, different sectors in the stockmarket can move in or out of fashion, often for no particular reason. "Technical factors" (different in essence from the "technical" selling discussed in Section 9.2.1 above) relate to the often short term influences on a share price, arising, for example, from a large holder of a particular share selling the holding. Since most professional investors will do this gradually, so as not to adversely affect the share price, market makers, in the absence of an equally large buyer of the shares, will look to keep the share price relatively depressed while there is a "stock overhang" in the market, lest they buy too many shares which they then cannot trade out again quickly.

Sentiment was undoubtedly the major factor influencing the stockmarket overall in the 1980s. Fuelled by companies' strong earnings growth, privatisations such as British Gas and British Telecom in the early part of the decade which encouraged

[56] For example: Golding. *The City*. pp77-8.

individual investors to invest in stocks and shares, and the growth of merger and acquisition activity, share prices experienced a strong secular, or long term, "bull market". In relation to the stockmarket this term relates to the situation where the prevailing trend of share prices is upwards, as opposed to a "bear market" where the reverse is the case. Although there were periods which saw bear phases due, for example, to profit taking, and a major, but relatively short-lived, downturn with the "Crash" of October 1987 (discussed below), the trend of share prices during the decade was unrelentingly upwards. This can be seen clearly from Figure 9.1 which plots the absolute movement in the FT AllShare Index over the decade. During the decade, the FT AllShare Index rose by 430%, from 227 at 31 December 1979 to 1204 at 29 December 1989.

Figure 9.1: Changes in the FT AllShare Index, Monthly, from 31 December 1979 to 31 December 1990



Source: Datastream

Jaguar shares started trading on 8 August 1984, and ended the day at 179p, an 8% premium to the offer price.[57] Generally, new offers were priced on the basis of being at a slight discount, perhaps 10%, to the market valuation, so the premium attained by Jaguar demonstrated that the financial advisors had been correct in the pricing. The subsequent changes in the Jaguar share price are shown in Figure 9.2, and the

[57] Throughout this section all share prices and share performance figures are sourced from Datastream.

performance of the shares relative to the FT AllShare Index is shown in Figure 9.3. In these, a number of distinct phases may be discerned.

Figure 9.2: Jaguar Closing Share Price, Weekly, from 10 August 1984 to 31 December 1989

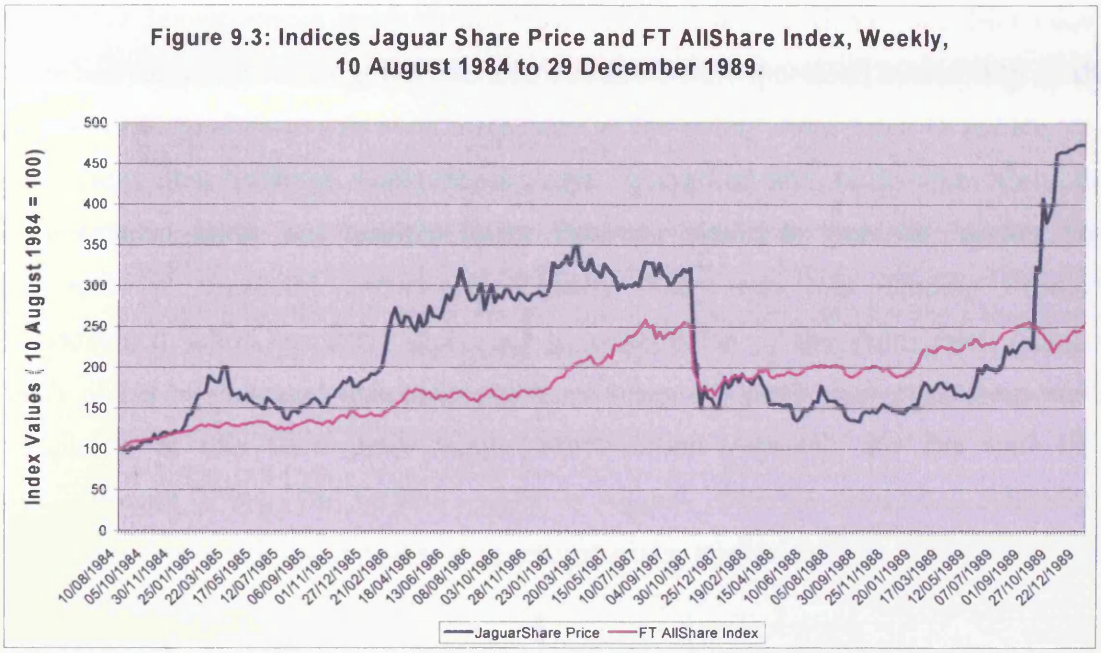


Source: Datastream

In the period to end October 1984 the shares tended to reflect the market's view of the fundamentals, underperforming the market overall as may be seen in Figure 9.3, as a result of the uncertainty regarding Jaguar's future earnings. Initially, most analysts viewed Jaguar as a recovery stock, but were cautious of the profits potential, and what the City referred to as "quality of earnings" – in this case the extent to which Jaguar's profits reflected its success as a vehicle manufacturer, and the extent that earnings were due to "non-quality" factors, such as currency, that were beyond its control. However, the optimistic noises made by the company to analysts and investors at the end of 1984 resulted in forecasts being revisited, and the start of the shares outperforming the FT AllShare Index, a trend that would continue until the stockmarket "Crash" in October 1987. During this period, investors would realise greater gains from investing in Jaguar shares alone than they would in investing in the stockmarket as a whole. In the week before the announcement, in March 1985, of the 1984 full-year results, the share price reached a high point of 362p, as may be seen in Figure 9.2. Although the 1984 pre-tax profits of £91.5million exceeded analysts' original forecasts of

some £80million plus, they were disappointing to some, with the more cautious institutional investors realising profits, and the share price consequently trading at a lower level of between 260p and 280p for much of the period March to September.

Figure 9.3: Indices Jaguar Share Price and FT AllShare Index, Weekly, 10 August 1984 to 29 December 1989.



Source: Datastream

It is far from certain, however, to what extent this depressed share price reflected selling activity, and to what extent it resulted from a lack of buying interest by investors. In the latter case, market makers would normally allow the share price to fall gradually until it found a level at which buyers re-emerged. Even so, it is of note that this lower level represented a discount to the stockmarket overall of some 25% on forecast Price-Earnings Ratios (PERs), again demonstrating the caution with which the shares, and the increased profits forecasts, were being viewed, something which was not dissipated by Jaguar announcing, in September, 1985 Interim results that were at the top end of market expectations.

As discussed in the previous section, the NASDAQ listing gave a major fillip to the shares, which rose to 470p by the time of the announcement of the 1985 full-year results in March 1986, having outperformed the market by 23% in the previous three months. In other words, an investor would have achieved a 23% higher return by investing only in Jaguar shares than would have been achieved by investing in the market

as a whole. During this period, the discount to the market PER mentioned above was reduced to 11%. By the beginning of July 1986 the shares had risen by a further 23%, to 576p, as a result of high US investor sentiment ahead of the launch of the XJ40, bolstered by presentations to the US financial community by Jaguar management, which led to the belief that Jaguar shares were cheap compared to those of BMW and Mercedes. As described earlier, the share price was also boosted by the increased availability of shares as many UK fund managers took advantage of the rising share price to reduce, or sell completely, their holdings. Undoubtedly, such selling had little to do with "Exit" in the Hirschmanian sense, but resulted rather from the desire to "lock-in" profits from a spectacularly successful investment. Equally likely was that Trading Funds had demonstrated "short-termism" in buying in anticipation of the share price rising as a result of US buying, and then realising the consequent profit. However, there were no complaints at this time from Jaguar about "short-termism". By the time of the announcement of the 1986 Interim results, in August 1986, the shares had outperformed the market by an impressive 44% over the previous twelve months, the discount to the market PER being reduced to 7%.

The shares now settled at this higher level, but with further share price rises reflecting not only what were perceived as improving fundamentals, with analysts' forecasts of 1987 full-year profits commonly being around £130million pre-tax[58], but also a raging bull market, the FTSE Index rising some 40.9% in the first nine months of 1987, and the FT AllShare Index rising 44.7% in the same period, as may seen from Figure 9.1. For most of this period, having reached a peak of 627p at the end of February, Jaguar's shares traded in a fairly tight range of 520p to 540p. This gave Jaguar a market value of between £941million and £977million, and given the continuing enthusiasm for the shares, particularly in the USA, this presented an ideal opportunity to raise additional funds through a Rights Issue. For example, at this level, Jaguar could have realised some £400million net through a Rights Issue on the basis of a one-for-two offer at a 10% discount, this being the sum estimated to be the cost of developing a new saloon car.[59]

[58] Hoare Govett, Investment Circular, 19 August 1986; Phillips & Drew Investment Circular, 27 January 1987; Prudential-Bache Investment Circular, 13 April 1987; Scrimegour Vickers Investment Circular, 27 May 1987.

[59] Sir John Egan. Evidence to the Trade and Industry Committee, 8 November 1989. "Trade and Industry

Likewise, such an issue could have financed an acquisition such as that of Land Rover. However, as related in Sub-Section 4.3.2 above, Egan was obdurate in this regard, believing that Jaguar's capital requirements could be funded out of its own cash flow, which in the analysis in Sub-Section 8.3.6 above was shown to have been unrealistic. Egan was forced to change his view in regard to Rights Issues in order to maintain, if somewhat modified, his aspiration regarding Jaguar's corporate independence, with a Rights Issue, in 1989, being part of the proposed deal with General Motors. But such a move would have been quite expensive, given the lower share price at that time, and not in the best interests of its shareholders. Furthermore, it would have hardly been in accord with corporate governance best practice. Indeed, Edwards went further than this when he opined that, "the General Motors deal would have been a disaster for the shareholders".[60] Undoubtedly, the failure to build up a war chest through a Rights Issue in early 1987, ahead of the US launch of the XJ40, can be regarded as a lost opportunity.

In the week of 19 October 1987 the world's stock markets suffered a major reverse, shedding a huge value in a very short period of time. By the end of October the FT AllShare Index had fallen by some 26%, and continued a downward path during November, before stabilising in December. Likewise, in the USA the Dow Jones Industrial Average Index had fallen 22.6% by the end of October. Whilst the causes of the "Crash" are problematic, what is certain is that markets in the first nine months of the year had become overheated and shares generally had become overvalued. Indeed, in the view of some commentators, the "Crash", whilst dramatic, and painful for some investors, was little more than a much needed correction, the FT AllShare Index, for example, still ending 1987 at a higher level than it had began it, at 895 on 25 December 1987 compared to 836 on 2 January 1987. However, the "Crash" resulted in Jaguar's share price more than halving, from 577p on 16 October to 270p on 12 November, as it was marked down alongside all other shares. However, the shares fell proportionately more than the market overall, as may be seen in Figure 9.3, due to concerns about the company's fundamentals, and the likelihood of distressed US private shareholders, seeing their personal wealth under threat, selling their shares. The latter concern proved to be

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Select Committee: Special Shares and the Department of Trade and Industry. Minutes of Evidence (Printed with HC 617-i 1988/89)". *Parliamentary Papers.* 1989-90. vol XIV (**HC 90-i**). p6.

[60] John Edwards Interview. *Appendix* p56.

justified, as shown in Section 9.3 above, with the proportion of shares held in ADR form falling from 49% of the total in February 1987 to just under 30% in March 1988. The concern regarding the fundamentals largely revolved around concerns that Jaguar sales in the important US market would fall due to the dilutive impact of the "Crash" on individuals' wealth. However, this concern proved to be unfounded, Dale noting, as mentioned in Section 5.6.5 above, that the "Crash" did "not have much effect at all"[61] on Jaguar sales.

In the immediate aftermath of the "Crash", Jaguar continued to put a positive spin on its prospects, Egan, in commenting on the 1988 outlook in December 1987, stating that, "We should be back on a growth tack. We sort of gave the analysts support at £100m, but said it wouldn't be as good as last year".[62] As a result there was an upturn in market sentiment with some improvement in the share price, with the shares trading above 300p until the announcement of the 1987 full-year profits in March 1988. The fundamentals were reasserted fairly quickly, and although most analysts, encouraged by Jaguar to do so, retained their forecasts of 1988 full year profits being in excess of £100million, there was now considerable cynicism in the market in general in regard to Jaguar, as illusion gave way to realism. The share price, therefore, started to discount a major downturn in profits, trading below 300p again. This was evidenced further by the limited impact on the share price of the major downgradings by analysts of 1988 profits forecasts, to as low as £40million pre-tax[63], following the announcement of the 1988 Interim results in August 1988. It is of note that from the "Crash" to September 1989 the shares mainly underperformed the FT AllShare Index.

In 1989, however, sentiment again started to play a major role in determining the share price, as the view developed among many analysts that if the then Jaguar management could not resolve the company's problems, and develop a clear strategy, then it was likely to be subject to a takeover bid. There is no evidence, however, of the exercise of "Voice" by Jaguar's shareholders in this regard at this time, although it is likely that Jaguar's corporate broker would have informed the company of this view. From the time of the announcement of the 1988 full-year profits in March 1989, when it

[61] Mike Dale Interview. *Appendix* p42.
[62] John Egan quoted in *Automotive News*. 14 December 1987.
[63] *The Independent*, 27 August 1988.

was first appreciated that Jaguar might actually report a pre-tax loss for 1989, the share price became increasingly subject to bid speculation, the price being driven upwards by increased speculative buying by US investors, as described in the previous section. The extent of "short-termism" here among investors cannot be ascertained, although it is always a feature in any rising market, and buying shares in order to accept a bid is, of course, the opposite of Bowden's "Limited Exit" concept.

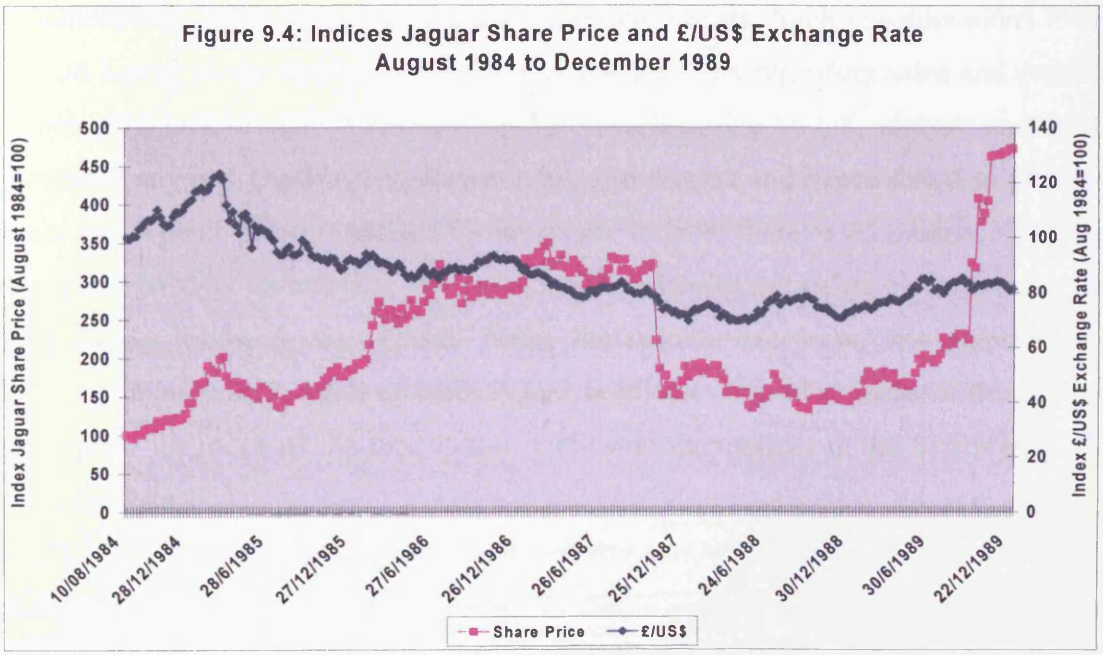
Given the importance attributed to the US Dollar in regard to Jaguar's profits, it is pertinent to question the extent to which changes in the Sterling/US Dollar exchange rate influenced Jaguar's share price. Whilst there is little evidence of investors trading Jaguar shares merely because of changes in the US Dollar exchange rate, it is highly probable that some such trading did occur. However, of more relevance to the equity investor was the impact that changes in the Sterling/US Dollar rate had on Jaguar's profits *per se* – in other words, the effect on the fundamentals.

It is difficult, however, to ascertain the relationship between share price and exchange rate with any degree of accuracy due to the number of other factors influencing the share price, and which have been mentioned above. Indeed, the correlation coefficient of the share price and currency exchange indices for the entire period emerges at -0.17, a figure which indicates that the relationship was not statistically significant at the 5% level. Nonetheless, there were structural changes in the relationship within the period overall, and when the period is broken up the relationship during certain phases do become highly correlated, the coefficients cited below all being significant at the 1% level. As can be seen in Figure 9.4, there were apparent relationships between the two indices over those periods when the fundamentals were the main factor determining share price movement.

Figure 9.4 appears to show a distinct coupling of the movement of the two indices in the period from August 1984 to June 1985, even if they can hardly be said to move in parallel. Statistical analysis of the two indices over this time period results in a correlation coefficient of +0.95. This coupling can be seen to have been interrupted during the re-rating of the shares due to heavy buying by US investors, from November 1985 to June 1986, resulting in a strong inverse correlation coefficient of -0.65 for this period. But once the shares had become established at a higher price level, after February

1987, the coupling of the two indices appears to have resumed, resulting in a correlation coefficient of +0.61 for the period March to October 1987. The "Crash" of October 1 caused a further, somewhat temporary decoupling, but the relationship between the two indices appears to have resumed in November 1987, albeit with the shares now trading at a lower level, until September 1989, the correlation coefficient for this period emerging at +0.63. After this point, intense bid speculation became the only factor determining the share price.

Figure 9.4: Indices Jaguar Share Price and £/US$ Exchange Rate August 1984 to December 1989



Source: Datastream

9.5 Summary and Conclusions

The listing of Jaguar's shares in 1984 appeared to all intents and purposes to be a product of expediency, serving no practical purpose other than being the only means acceptable to all parties concerned by which Jaguar could be freed from the shackles of BL ownership. Indeed, once the shares were listed, the Jaguar management, adopting a negative stance in respect of Rights Issues, took no advantage of its stockmarket quote to raise additional funds for capital investment, or for acquisitions. This seemingly inflexible position appeared to have been reconsidered when a deal with General Motors became contingent on a Rights Issue. The fact that Jaguar did not attempt a Rights Issue earlier was not only

a lost opportunity but suggests that Jaguar's financial planning was inadequate, being founded on the delusion that it could continue to fund its future development from its own resources.

Perhaps as a consequence of its particular arrogance, Jaguar failed to appreciate the growing requirements of its City audience regarding corporate governance best practice. Of especial note was the need for Jaguar to make the City aware of its longer term strategy, a key factor in underpinning investor confidence in any company. As a result, the Jaguar share price tended to be driven by other, somewhat myopic, considerations, often fuelled by Jaguar's own PR efforts. Such considerations included the US listing of the shares, and various announcements regarding sales and production figures. The lack of understanding of motor manufacturing by UK analysts and investors prevented any real challenge to Jaguar's PR obfuscation and hence failed to provide the basis for "Voice" to be exercised by investors. Indeed, there is no evidence of "Voice" being exercised by investors at any point, which is hardly surprising given that, the period immediately following the "Crash" being the notable exception, few investors would have lost money as a result of their Jaguar holdings. The other major influence on the share price for much of the time before 1989 was fluctuations in the Sterling/US Dollar exchange rate.

Whilst "short-termism" undoubtedly was a feature in the market for Jaguar shares, there was little evidence of it having had a major impact on the share price. Also there was no evidence of investors exercising the Hirschmanian option of "Exit", at least until after 1987 when reality overtook perception, and Jaguar began to fail to realise City expectations. Consequently it was abandoned by many of its UK institutional investors, who sold their holdings, and from this time onwards there was an increasing cynicism towards Jaguar that became progressively more difficult for the company to counter, and which paved the way for the successful hostile bid by Ford.

During its period as a quoted company in the 1980s, Jaguar suffered significant periods of volatility in its share price, this being driven at varying points by fundamentals and market or investor sentiment. As the above analysis has demonstrated, the Sterling/ US Dollar relationship was an important influence on the Jaguar share price during periods when fundamentals were asserted. However, sentiment played a far

greater role in determining Jaguar's fate, and here much of the problem of a lack of support from stockbrokers and investors may be attributed, as related above, to Jaguar's lack of understanding of the City, and its consequent inadequate level of communication with the City audience.

CONCLUSION

MAIN FINDINGS

In the Introduction, the aims of this thesis, and the main research issues, were defined, and the conclusions stated below relate to each of these.

1. What was the nature of the Jaguar company under Egan's management? Does the conventional view of it as a revitalised modern company, which encountered difficulties due to factors beyond its control, have a basis in fact, or is this illusion created by Jaguar's remarkable public relations effort?

The evidence presented in this thesis gives strong support to the premise that the image of Jaguar as a rejuvenated and efficient company which, under the direction of enlightened entrepreneurial management, had resolved its quality problems was to a large extent an illusion created and maintained by Jaguar's well-orchestrated public relations effort. However, it is arguable as to whether, in the early 1980s, Jaguar had much choice, given the problems facing it and the limited resources available to it, to pursue any marketing strategy other than that founded on public relations, and this, as has been shown, was the essential element in rebuilding and maintaining dealer and customer confidence, and hence sales and profitability. The illusion created was further aided by the impact of favourable currency exchange rates in the first half of the 1980s which propelled Jaguar's profits to record levels, currency contributing some £80million of Jaguar's peak pre-tax profits of £121million in 1985.

As has been demonstrated, Jaguar's public relations efforts successfully concealed Jaguar's failure to address many of the problems it had inherited from BL, and which had given the British motor industry such a poor reputation. Such problems, which included the effects of antiquated manufacturing plant, poor manufacturing systems and discipline, ineffectual production management, and detrimental and outmoded work practices, remained basically unresolved under the Egan management. Jaguar's failure to tackle the issue of working practices, and other production issues, resulted in it being able to achieve increased production only through the time-honoured method of employing more people, and thereby sacrificing its well-publicised productivity targets. However, the public relations-driven

perception that Jaguar was now free of many of these problems was an important element in restoring and maintaining dealer and customer confidence, and thus enhancing Jaguar's sales performance, and profitability.

Much was also made of the abilities and success of Jaguar's management, particularly in regard to Egan who, in the conventional view of the company, was credited with personally restoring the company's fortunes in the early 1980s. As the evidence makes clear, there was much truth in this view although Egan's leadership abilities became greatly exaggerated by Jaguar's highly-effective PR campaign, much of which was devoted to promoting Egan himself. However, the success of the PR campaign appears to have had a detrimental effect on Egan, with him starting to believe more the illusion created about Jaguar, and himself, rather than the reality, something which considerably diminished his management and leadership skills. Egan was credited with changing the focus of Jaguar's management effort but, as has been shown, the portrayal of Jaguar as a marketing-led organisation also was more illusion than reality. Jaguar, and Egan in particular, concentrated on PR aspects, with little attention apparently being given to market research and analysis, and market-based product planning and development. Consequently, Jaguar, despite making significant advances in its distribution in a number of markets, remained a production-led company.

Finally, this thesis has shown that the conventional view of Egan's management team as being highly effective, experienced executives, who operated as a cohesive unit owed more to illusion than to reality. Indeed, most of Egan's department heads appear to have been lacking in both ability and experience, with some being prepared, with the benefit of hindsight, to admit to their own shortcomings. Moreover, there appears to have been little effective co-ordination and control of the company's activities, Egan allowing many of Jaguar's functional departments to be run as personal fiefdoms. As has been noted in this thesis, it was only in 1989, in the light of a dramatic downturn in profits, that Egan admitted that Jaguar's management, once heralded as a model of successful British management, could "better manage" the business.

2. What were the problems impacting on Jaguar's performance in the 1980s under the Egan management, and were these the principal causes of Jaguar's considerable difficulties in the second half of that decade? Was the failure to recognise and resolve the various problems a

result of management delusion, exacerbated by its initial success in turning round the company?

The evidence presented in this thesis has demonstrated that the prime reason for the dramatic downturn in Jaguar's fortunes after 1986 was the poor quality and reliability of Jaguar's new model, the XJ40, which resulted in a considerable decline in sales in the important US market. Testimony for this is provided by both anecdotal evidence, and by the dramatic increase in warranty costs shown in Table 8.1 above. This problem was cleverly hidden from the media by Jaguar's public relations efforts and there was general acceptance of the Jaguar version of the problem resulting from the strength of Sterling and the lower demand for luxury cars in the US market, factors over which Jaguar could exert no control. Underlying the quality problem, which existed when Lyons controlled the company, and was never resolved at that time, were a plethora of contributory factors, many of which also originated from the time of the Lyons autocracy, but which, as Whisler has revealed, were common to the indigenous British motor industry.

As has been revealed in this thesis, whilst the quality and reliability problems resulted from deficiencies across all aspects of the Jaguar operation, the fundamental problem lay with Jaguar's own product engineering department. Under the Egan management, engineering was permitted to operate in autonomous isolation, with no management checks and controls to ensure that it was doing what it should have been doing, with the resultant problems not being recognised within Jaguar until after the launch of the XJ40 in the USA in 1987. The evidence indicates that many of the XJ40 quality issues were the product of design faults, resulting from inadequate engineering resources, and weaknesses in engineering capability. These could not be easily fixed, and some remained unresolved. The quality problem was also impacted by the almost non-existent level of communication between Jaguar's engineering function and its manufacturing operation, with the product engineers designing cars with little or no consideration for how they would be built, resulting in numerous product quality defects, and consequent redesign, rectification, and retooling. Moreover, Jaguar's antiquated production facilities, in terms of both plant and equipment, suffered deficiencies in regard to manufacturing systems, discipline, and production management, and from outmoded working practices, thereby contributing to the quality problem. Undoubtedly, Egan, who was personally deficient in vehicle

engineering and manufacturing experience, must shoulder much of the blame for this situation, failing to recognise and address the weaknesses in Jaguar's manufacturing and engineering functions. The consequent continuance of this situation served to exacerbate the underlying problems as production increased. In particular, Egan appeared to be afraid that attempts to reform outmoded and restrictive working practices would jeopardise production in a period of rising demand, and thereby damage the company's prospects. Accordingly, Jaguar's quality problems were not resolved to any great extent during the period of the Egan management.

Egan had recognised, shortly after he joined Jaguar, that quality problems were a major issue, and set about resolving these. Whilst he achieved some success in improving the quality of the Series III model, at least to a level sufficient to convince people that Jaguar's quality actually had improved significantly, Egan appears to have convinced himself that he had resolved all the Series III quality problems, which seemed to be confirmed by the significant increase in sales achieved by Jaguar after 1981. However, Jaguar's rapid and spectacular recovery in the period 1980 to 1983 resulted in the Jaguar management, as a whole, and in terms of its individual members, becoming increasingly arrogant, refusing to acknowledge or see Jaguar's deep-rooted problems. In particular, as the evidence has shown, Egan became increasingly prone to believe his own PR statements, and tended to lose touch with reality, suffering considerable delusion in regard to Jaguar's manufacturing operations, the quality of its products, and the prospects for the company.

Above all, Jaguar's recovery and growth in the period to 1986 resulted in Egan deluding himself that Jaguar could remain a totally independent car company that could become the "English BMW", that the luxury car market would support Jaguar's growth aspirations, and that Jaguar had nothing to fear from the entry of the Japanese into the luxury car market. Moreover, Egan suffered the delusion that Jaguar had the resources, and could generate sufficient cash, to achieve his aspirations. As a result, Egan refused to consider raising additional funds from external sources such as City investors through a Rights Issue. Although Jaguar had done much to improve its engineering capability, especially through the opening of Whitley, but not its engineering-manufacturing interface, this appears to have been at the expense of modernizing its assembly operations which remained highly labour-intensive.

Moreover, in an era when motor vehicles were becoming increasingly sophisticated in terms of both passenger comfort and technology, model development

required significant amounts of investment, in addition to expenditure on modern plant and equipment. This was demonstrated by Ford who, in the four years following its $2.6billion acquisition of the company, invested another $2billion in Jaguar to enable it to achieve international competitiveness with the likes of BMW.

3. Did Jaguar's failure in the 1980s reflect lost opportunities?

There were various opportunities available to the Jaguar management in the 1980s for improving or developing the business, any of which might have changed the outcome of the story, but which were not adopted, and to catalogue these would not in itself serve any useful purpose. For example, it might be argued that Jaguar could have done more to address the weaknesses of its engineering and manufacturing operations, and the failure to have done so was a lost opportunity. However, two particular opportunities which were spurned or rejected by the Jaguar management are worth noting, since the adoption of either would have been likely to have had a marked impact on the future direction of the business.

First, the opportunity presented to Jaguar to acquire the Land Rover company, thereby, in Putnam's view (noted in Sub-Section 4.3.4 above), giving Jaguar critical mass, particularly in terms of distribution, and probably in terms of purchasing power. The acquisition of Land Rover could have resulted in a lowering of the overall cost base as functions were merged and, also, it would have assisted Jaguar considerably in overcoming the weaknesses in its engineering function. Paradoxically, however, it was major opposition to the merger coming from Jaguar's Engineering Director that led to the Land Rover opportunity being rejected. As has been noted, Ford acquired both Jaguar and Land Rover and, in effect, merged the two operations, later selling them as a package to Tata Motors in 2008.

Second, Jaguar's management refused to take advantage of the opportunities afforded it by its position as a publicly quoted company. As has been demonstrated, Egan was aware that a considerable amount of cash was required to fund Jaguar's future development, but refused to use its listing to raise cash through a Rights Issue. It is also somewhat remarkable that Jaguar, unlike many ambitious, expanding, companies in the 1980s, took no advantage of its listing to make acquisitions, unlike Lyons in the 1960s. Indeed, the listing of its shares in the USA on the NASDAQ system in November 1985 had little purpose other than that of

promoting the Jaguar brand name. Such failure to make use of its listing to raise funds for capital investment and to make acquisitions may certainly be regarded as a lost opportunity.

MAJOR LIMITATIONS OF THE ANALYSIS

In any research project the major limitations are likely to be those of the nature and availability of source material, and the constraints imposed by the shortage of time and other inhibiting factors. Consequently, few studies of this type are as comprehensive in their coverage of the subject as might be desired, and this project, unfortunately, is no exception.

As has been made clear, the refusal of Ford to allow access to the Jaguar corporate archives of the period prevented possible quantification of anecdotal, and other, evidence regarding, for example, production lost through industrial disputes, and any internal commentary on such disputes, and thus comparison with other companies in the industry. Such archival material might also have provided additional, and significant, insights into, and enabled some quantification of, the quality problems suffered by Jaguar, and provided evidence to support or refute the findings of this thesis that delusion and illusion played a significant part in the Jaguar story in the 1980s. Whilst considerable useful information has been obtained from personal recollection, its reliability and validity has to be set against the *caveats* usually appertaining in regard to such sources, and which were described in Sub-Sections 2.2.2 and 2.2.3 of this thesis. Furthermore, given that this study was aimed at a business, rather than a social, history of Jaguar, interviews were largely restricted to those who could provide a broader, but fairly detailed, perspective of Jaguar, mainly executives of Jaguar or other companies, with the only shop floor perspective provided by a former senior shop steward at Browns Lane.

As with all studies of this type, the research effort was constricted by time considerations, and the comparative narrowness of the subject matter of the thesis, focus being directed, of necessity, onto those areas most germane to the defined aims of the study. Thus, although detailed comparisons with other motor manufacturers of the period, particularly BMW and Mercedes, might have been desirable, the amount of effort required in attempting to access, and research, such archival sources might well have proved counterproductive. In any case, it is difficult to attempt comparisons

with other UK motor manufacturing companies given the uniqueness of Jaguar in terms of its size, and its products. Consequently, this study sought, and has presented, evidence that related to the specific issues and their analysis, but even then allowance had to be made for the dearth of archival material. For example, both BMW and Mercedes proved unhelpful in regard to providing 1980s sales figures for models that competed with Jaguar at this time, claiming that this information was not held by them, although BMW was happy to provide overall sales figures, and 7 Series production figures.

AREAS FOR FURTHER RESEARCH

This thesis has sought to provide a comprehensive study of the problems suffered by Jaguar during the 1980s and the reasons why the company, under the Egan management, failed to resolve these. This is the first academic study to have focused on Jaguar and, other than Whisler's work on BL, is the only study of a British motor company to have highlighted the issues of quality problems and pervasive weaknesses in the engineering function. This therefore presents possibilities for research into other British motor companies to ascertain if the findings of this thesis, and those of Whisler, might be further supported, or undermined. In particular, studies of Ford UK and Vauxhall, both American owned and managed companies, would demonstrate whether such problems, particularly in regard to the engineering function, which adversely impacted the performance of BL and Jaguar, were industry-wide in the UK, and if not, as appears to be the case by the time Ford acquired Jaguar, how they had been successfully challenged and reformed. Little is generally known about the quality issues at Ford, although some indications have been provided *en passant* in this study. Similarly, little is known of the engineering function, or quality issues, at Vauxhall, Holden's book on that company providing little or no illumination on these subjects. Moreover, the findings of this thesis could be tested against the international experience, exploring whether an absence of ingrained attitudes were major factors in the success and growth of BMW, Mercedes, and, later, Lexus, in the period 1970 to 1990 and beyond. Further research into Jaguar itself, following the Ford takeover, would also be relevant since there is the issue of why Jaguar again experienced considerable financial difficulties after 2000, despite the fact that Ford had successfully challenged ingrained attitudes and reformed bad work practices at

Jaguar, and had invested considerable sums in plant modernization and research and development.

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APPENDIX

This Appendix contains the transcripts of the taped interviews conducted for this study, edited in regard to grammar and syntax, the translation from the spoken to the written word, and in respect of those comments that interviewees asked be treated as being "off the record". Where interviewees gave a particular emphasis or reaction, this is conveyed in the transcript by exclamation marks, or by means of underlining.

Footnotes are used to provide background on individuals mentioned by interviewees, to explain, or elaborate on, events, technical terms mentioned, and comments made, and also to provide, where appropriate or feasible, supporting or contradictory evidence obtained through the technique of triangulation.

Many of the interviews were commenced or carried out prior to the recent requirements to obtain formal research ethics approval for conducting interviews. To demonstrate that the author has complied with ethical considerations regarding the recording of interviews, and the use of material thus obtained, retrospective permissions in respect of some of the later interviews are included at the end of this Appendix.

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What was your background with Jaguar?

I became a senior shop steward at almost exactly the same time that John Egan took over at Jaguar, so I never participated in the dispute at that time. When Egan arrived he called a meeting with the shop stewards. I think it was Browns Lane and Radford that participated, not Castle Bromwich.[1] Egan told us how he thought he'd turn Jaguar into a first class company, paying the top wages etc, and ended by banging the table and asking "Are you with me?" The shop stewards were stunned. The senior shop steward said "You'll have to forgive us if you haven't got the response you want, but we've been here a long time and we've heard it all before". Egan literally withered before the onslaught. Egan didn't know what he was talking about with regard to cars. It was all superficial with him. He was superb at presentation, but not as far as following up was concerned. A lot of the change was superficial. The plant ran in exactly the same way: all about numbers. About four times a day you reported to Wally[2] regarding the numbers.
Egan thought we were a load of Bolshies. He genuinely thought we'd go out on strike against the privatisation, but our guys hated being part of BL, so a strike was a complete delusion. What we got in share options was an awful lot more than we expected. Egan bought us off. We deliberately decided to trail our coats and maintain his fears. We knew that we couldn't do anything about the privatisation, but we got the price up. I'm convinced that he deliberately ramped up the share price by making out it was worth a lot more.[3] He knew that the Golden Share would only last five years. I think the XJ41 was part of the hyping up.
When Ford came in, Hayden[4] just took a grip, and he was astonishing. He knew what he was talking about. With Egan it was all PR. He used to walk around the factory, showing himself, playing at being Chairman. I was enormously impressed with Hayden. He ran the company on quality. He actually went and sat in on the quality control meetings and with the car inspections. The dealers felt that they had really been bullshitted that there had been a turnaround in quality. The Ford management had to counter that.
The plant had never been managed properly since Bill Lyons, who was a real skinflint, had left. Lyons had managed it on a shoestring. It was a classic case study. His successors didn't have the skills to run the plant. We didn't know how to build cars. Egan was heavily into Deming,[5] but it was done in a superficial way. Egan allowed a group to go to Japan in the autumn of 1983, and I was one of them. We all saw things there that we

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[1] The Castle Bromwich plant was not part of Egan's remit at that time (April 1980) but became part of the Jaguar operation in August 1980.
[2] Wally Turner, Browns Lane plant director, reporting to Mike Beasley, Manufacturing Director
[3] This comment relates to the Jaguar share price in 1989, ahead of, and at the time of, the Ford bid.
[4] Bill Hayden CBE, Ford Motor Company Vice President, and Chairman of Jaguar from March 1990 to March 1992.
[5] Deming's systems for improving quality control and productivity had been widely adopted by the Japanese who regarded Deming as a guru. (Halberstam. *The Reckoning.* (London, 1987). p311-18)

couldn't believe. We couldn't, for example, understand the Kanban system.[6] So that was a good thing; it was a glimpse on how it would have to be.
The management system was dysfunctional. Nobody listened to those actually doing the job. In the end people on the shop floor lost interest. Everybody knew that a car would be stripped down at the end of the line and repainted. I think something was done about it during the Egan years, something they called "consolidation". They modified the layout. But effectively we built systems on top of systems.

What were the problems with production?

The normal way for a car to be built at Jaguar was: body came in from Castle Bromwich, went down the main assembly lines, went into the rectification line, was invariably stripped down, then it went to road test, which not only road tested it but often stripped it down and rectified it again. Then it went over into the paintshop to repair minor body-in-white defects, then it went onto the refit where often it was re-worked again, then onto the final line where it could be re-worked again. That is the way we built cars. This was in the 1980s. Consolidation sorted out some of it, but there was still an acceptance that right first time every time wasn't in the ethos at all. This was the central change that Hayden made. First he had to break through the massive cynicism because we'd been told so many, many times that quality came before numbers. Nobody believed the management when they said that because repeatedly and continually that had simply not happened. You used to end up in situations where you would systematically find that if you got a really bad car on a final line the gaffers would push it off, push it to one side, push the next five cars back on, push it back onto the track again for the next shift. The next guy picks up the costs, the next guy picks up the fact that they've dropped a car. The whole factory was measured on numbers. How many cars off the final line, how many cars out of the rectification bay, how many cars out of refit, how many cars off the main assembly line, how many trim sets out of the trim shop. If you didn't score your numbers you were in trouble. So you fiddled the quality systematically and the unions raised this again, and again, and again. The whole quality system was so inefficient.
The XJ40 was a lot simpler than the old car, but it never looked a Jag. That was the complaint that the dealers made. But the car before [Series III] was so bad that we'd effectively been selling people second-hand cars. We'd be repainting cars systematically and a few weeks later they would <u>look</u> as if they had just been repaired.

[6] Foreman-Peck *et al* described the Kanban System thus: "Inputs [to each cell consisting of 15 to 20 workers] arrived in panniers that were colour coded complete with the 'kanban' or demand note raised by the factory on receipt of the order and translated into appropriate amounts of materials available to each cell. Stock reductions worth millions of pounds were claimed for the new system" (Foreman-Peck *et al*, *The British Motor Industry*. (Manchester, 1995). p242.)

At what point in the hierarchy did management break down?

The people who knew what was going on on the production line weren't listened to. There were layers and layers of management. In the 1970s when I started at Browns Lane the men were on piecework and it was the shop stewards who got the line going again. When we moved to flat rate nobody cared. There was a big strike at Jaguar in 1972 to keep the piecework system, but we lost.[7]

What about Quality Circles?

We [the shop stewards] were worried about them. Egan was pretty anti-union, and we thought quality circles were a way of circumventing the unions. But Quality Circles were only a talking shop. It was a case of going through the motions. The fundamentals were that people did not believe the management were interested in quality. Egan got bored with quality circles. Egan was into communication; he was fed up of communicating with the workforce through the unions and started communications meetings, but he got bored with them and left them to other directors/managers to do. Some people spoke out of turn at some of these meetings and were warned off by the foremen.

[7] The Flat Rate (or Measured Day Work) system was imposed on Jaguar by BL. This is discussed in Section 3.7 in the main text.

Transcript of the interview with Mike Beasley on 10th February 2003

What was your background with Jaguar?

I started with Ford in trucks in the Thames Valley on the west site at Langley, and I joined Jaguar originally in 1974 as a manufacturing engineer, which was my background, and spent some time here in the days of Geoffrey Robinson. I found Geoffrey Robinson a fascinating boss. He was a great motivator, surprisingly loose on facts and data management, but that's not terribly unusual for the time in the 1970s I think.[8] Come the Ryder Report, I went to Cowley for a while doing a BL job, a manufacturing engineering job, and came back to Jaguar, just ahead of Egan joining, as plant director of Browns Lane in 1979. When I first came here one of the first major tasks was to build a paintshop, an ill-fated paintshop. The paintshop had been started and after a while I looked at it and said "What's the capacity we want?", and nobody really knew.
We had huge problems because the British Leyland solution was to leave the bodies in Castle Bromwich, which is where they were built, paint them at Castle Bromwich, and then ship painted bodies over to Browns Lane. Geoffrey Robinson's plan was to expand Browns Lane to include paintshop initially and then later body-in-white, and we had a layout here as to how it was going to include body construction as well as paint, which was a much more sensible approach to trying to say if this company is going to be relatively small in current industry terms and a niche manufacturer then it made sense to try and concentrate on the 100, maybe 140, acres that were available at Browns Lane. One of the things we did when we were looking at sizing it in John Egan's time was to say what sort of size and scope were we really looking for, and how were we going to grow the company. One of the clear limitations was the address, Browns Lane, and the way to start trying to change that was to consider applying for an access at the back of the site. Thoughts were along those lines in days before Ford took over, but they weren't firm plans. Once we'd started to move the company forward and build and look at expansion, then many of those plans came up. Single assembly line, for example, in Browns Lane had long been looked at and planned. In fact, there were plans existing when I first came to Jaguar for a single assembly line. Those things got developed and were born under Ford when cash availability, knowledge, and expertise came.

What were the main production problems in 1980?

The biggest issue we faced was paint. Simply an availability of painted product from Castle Bromwich. That was part of the old Pressed Steel Fisher side of the business and we had severe difficulty in terms of quality and volume of painted product supplied from Castle Bromwich, and we did a lot of work with them to try to overcome those problems. Some of those issues included trying to focus on just two or three colours for a few months in order to give them a chance to get into control and start supplying in better volume and better quality. We originally had red, white, and yellow as a way of just

[8] Mike Dale was far more forthright in his views on Geoffrey Robinson, stating in an e-mail of 5 August 2008 to the author "From our point of view he was very bright, but totally out of control. The only way he got work out of the unions was by promising them the earth, and the results were astonishingly bad both from a quality and a production angle".

starting and I've got some pictures of Browns Lane full of red, white, and yellow Jaguars. Well, it was intended for a few months and it lasted rather a long time. It was just ridiculous. We weren't able to overcome the technical and the discipline problems to run the paintshop in Castle Bromwich for quite a long time. In fact, it wasn't until John Egan's time when we actually took over Castle Bromwich that we were able to work with the management there and get the place under control, and even that took quite a long time. Remember, Castle Bromwich was a plant that Michael Edwardes[9] thought should close because it was unmanageable. And I think in size and scope and the way it had been managed, it probably was unmanageable. What we took over was a relatively small element of it. A lot had been moved out of it by then, and we set about to try and get control and discipline into the plant. And it took us two or three years to do that.

What about Browns Lane, because there were obviously problems there?

We had lots of issues. Quality was poor. Quality standards were poor. Design levels were okay theoretically but when practically applied were not so good. And we, and much of the rest of the car industry in the UK, despite Deming, did not understand variability in those days. And it wasn't until Ford came and drove in process management and we understood or started to truthfully understand variability in manufacture and what it meant, and I mean that not only in manufacturing but in engineering terms too, in design terms too, that we started to really make huge strides on quality improvement. In the days under John Egan we did not understand. We had Deming, we talked to Deming's people, we used some of Deming's people in order to try to improve things. We recognised the need, and we started to feel our way. John used to use the term "white stick", for obvious reasons. We used to feel our way. We started to try and feel our way to understand the issues; the root causes of the issues, rather than just look at the symptoms, and try and try and manage the symptoms. Something that's second nature now, but wasn't then. We were working our way through some of that at the time that Ford bought Jaguar. It was the event of Ford buying Jaguar, Ford bringing process disciplines, know-how, and management skills which enabled us to make the rapid progress that we made in the 1990s. In the 1980s the progress we made was self-driven with a relatively poor UK infrastructure to try and support companies that were actually trying to move themselves forward. We couldn't turn to universities or to training support or management support. You needed to go find it, touch it, invent it, yourself. In an environment where, frankly, trade unionism had run companies of this size and structure, in the car industry particularly, that was a very, very difficult management environment to operate in. I can remember in the 1970s I spent 80%-85% of my time in negotiations with trade unions. That changed under Michael Edwardes, and improved again with John Egan because of the environment we tried to set, but I still spent something like half to three-quarters of my time negotiating with trade unions as a manufacturing guy, whereas today they are much more part of the team than they are the opposition.

[9] Michael Edwardes. Chairman of BL, 1977-82.

Wasn't it true that in the 1980s you were doing two year pay deals, and every two years you had a strike over pay without the other disputes that you had?

Yes, and that was part of that long process of trying to move from trade unions being in opposition to management to being in a position where trade unions and management looked outside of the company for the opposition. That took a long time. That took the 1980s to achieve. It wasn't until the early 1990s that we genuinely started to move forward. That was in part due to the leadership of the trade unions at the time, and also the leadership of management.

What about the high level of warranties in the early 1980s?

We had a very large supplier issue. Some of the improvements we made in the early 1980s in John Egan's time were in-house improvements, doing things better ourselves, particularly trying to find the find the things ourselves and protect the customer. And we did move forward. There's no question about that. The cars that we built in the later days of John Egan were considerably better than the cars we built in the early days, when he first came. We did a huge amount of work with the supply base, trying to get the supply base to improve the quality of the products they gave us, or alternately resource from someone who could. And at one stage I remember the discussion with John Egan, John Edwards, and others in the Board about if the only way we could achieve this goal of supply base support is to source with the same supply base that Mercedes Benz sources from, then so be it. That's what we would have to do. And several of our re-sourcing actions were actually into BMW or Mercedes' suppliers' German supply base in order to try and improve quality. And some of them we are still with. ZF, for example, on gear boxes. I remember us having horrendous problems with gear boxes from GM and from Borg Warner. Horrendous problems! And those problems were mitigated by design changes and by forcing them to improve the quality of what they did. And remember, we didn't wholly understand variability in those days, and we were driving "white stick" as John Egan used to say. We did a lot of work with tyre manufacturers. We thought it would be nice to have round tyres, to quote an example that's often used. I remember getting into deep issues with, and sending a lot of people into, our steering supplier, our power steering rack supplier to stop them leaking. Power train we made ourselves. The engines we made ourselves. We had some issues because some of the technology dated from the 1940s. The XK engine, as wonderful a job as it did for Jaguar, by the mid 1980s was getting tired, and it was certainly well amortised kit that it was made on, that's for sure. The facilities were extraordinarily well amortised. Electrical issues. Harness manufacturer! Phew!

Was Lucas supplying the harnesses?

We tried to improve and work with Lucas, and in the end we were getting to resource away from RISTS.[10] Again at the end of John's time, and into Ford's, we were moving away from RISTS. There weren't many parts on the car which were thoroughly reliable, and it was a function of our design, our suppliers' design, and their manufacturing capability, and our manufacturing capability. Jaguar had stood still in the BL days and not moved forward.

Did they have an incentive to do so?

No. I think they probably didn't. We didn't have the data to know. That's the worrying thing now, looking back with the benefit of wonderful hindsight. We had a warranty system which was designed to pay the money, not designed to give you data on what the issues were. Unbelievable now, but it was true. In fact, we had just started to change our warranty system so that we did understand what the hell was going on when we went into Ford. And as a result, the combination of the Ford processes and the Jaguar's legacy processes in the early 1990s gave us an enormous amount of data. We had better data than Ford had then on warranty, but that was because we had come from such an awful position. But Ford brought process management. That was the key difference; that was the key thing that was lacking. We did not understand adequately process management. We did not understand cause and effect well enough. We did not understand well enough controlling inputs. We were still trying to manage symptoms.

Did Quality Circles actually work?

In so much as they moved us forward they worked. Did they move us forward far enough? No! We had management ginger groups with the same sort of goal and objective: to move our management processes forward. Did they work? Yes! Did they work well enough, far enough, fast enough? No! Could we have moved faster in John's days? Yes, I think we could have done. How much faster is a moot point because you can move a company at a rate at which can absorb change, and we moved forward quite a lot in John's time. It's often said we were running fast to keep up with his marketing ideals, and the PR, but we did move forward. The last Series IIIs were much, much better cars. XJ40 was a rude awakening in terms of a product.

What happened with the XJ40?

We approached the car with an amazing level of naivety. Not well executed, not thoroughly thought through from a design point of view, and despite all the millions of road miles we actually put into development, and we did put a lot of development road miles into it, we certainly gave the customer a lot more problems than we should have by a factor of several: two, three, four. We ran fast to try and correct it but the damage was done. There's no doubt. I think we went into that launch with an enormous level of naivety on new cars. Jaguar hadn't launched a new car since XJ-S. That's not strictly

[10] RISTS was the Lucas subsidiary manufacturing automotive wiring harnesses.

true, we did stop making XJ-S for a year and we had to re-launch it, but it was much the same. And Jaguar had come from being a company that was very low volume, and you made to fit, to become a higher volume operation, even though less than fifty thousand, which was making to specification. And that was a big change, and a change that was extraordinarily painful. There are still parts on our sister company's Defender, for example, which are made to sample.[11] There's no drawing, even today. So to get to a position where you make to specification, then you understand the specification and the variability in the manufacturing process, and you design for that, and you manufacture process control for that were lessons we didn't learn until the early 1990s.

What was the capacity of the plant for the XJ40?

I can't remember. Certainly we never worked more than two shifts. We could have gone to three shifts. We'd have had logistics issues but we'd have found ways to overcome those. We could have gone onto three shifts but we never even talked, or thought, about it. We did understand then that the luxury car business is a pull business, not a volume car push business, and the perfect solution is always to make one car less than you can sell. We never quite got it, but we did at least aim for that.

Was the XJ40 a car that wasn't designed to be manufactured?

That's true in part. It had lots of design issues, and we spent a lot of time and effort in the late 1980s and early 1990s correcting those. We had a lot of supplier issues still. We tended to push our design requirements to the limit of manufacturing capability and just beyond; both of ourselves and our suppliers. I'm not getting at our supply base particularly. We did not protect the customer well enough with XJ40, there's no question about that. The US launch of XJ40 was a huge rude awakening for us, a huge reawakening, and I think driven by the fact that the US dealers were owner-entrepreneurs largely, still are, and had invested a lot of money in XJ40 in their facilities. Therefore, they had got a lot of personal equity riding on it, and had expectations of improvement, which were not unrealistic, far beyond Series III. And, as I say, we had got the Series III to be a more credible car. It wasn't a very brilliant car, but it was a more credible car, and it was more competitive in quality and reliability for its time, if not perfectly competitive, and XJ40 was terrible. It was an awful step back, and it took us two years to even get closer to where we'd been with Series III. I do remember deciding that we wanted interior changes, and significant interior changes, to the trim before we came to launch. When we first started to make the prototypes we said "This is hopeless, this is not a Jaguar, we need to change, change, change!!"

[11] "Sister company" here refers to Land Rover which was bought by Ford from BMW for £1.8billion in 2000, and joined Jaguar as a constituent of Ford's Premier Automotive Group.

How much of the problem was supplier originating on XJ40?

It was probably close to six and two-thirds in the margin more on the Jaguar side than the supply base. At the end of the day Jaguar is responsible for what it gives to the customer, so in terms of culpability it was probably 60% Jaguar and 40% supplier.

How was that allowed to happen? Was it the lack of management controls?

We were coming from a cottage industry which managed symptoms and not inputs. As I said, our knowledge of process management in the sense of controlling inputs and managing the process was not something which was well developed. It was something we were starting to understand by 1987/88, which was too late for XJ40. We needed to start that five or six years before.

So what was done to sort it?

The only thing you can do under those circumstances was all hands to the pump in terms of design changes, manufacturing process changes here, extra checks there, to try and manage the outcomes better, and get stuck into the suppliers parts that were giving major problems. But it was an interesting, it was an exciting time shall we say. Very difficult!

Why didn't you have diesel-engined cars in the 1980s?

We had lots of diesel installation programmes in Jaguar, back to the times before John, and subsequent to John, and during John's time we tried various diesels in cars and cried off and decided not to.

What about the impact of external factors in the late 1980s?

The environmental pressure had started to come. It came in shock waves. It was not seen by us as a growing continuum. We only saw the shock waves of oil pressures or oil issues, or supply issues. We didn't see a steadily building environmental pressure then. The other thing of course was the exchange rate. In the early days half our product went to the US, which is still crudely the case, and the pound at $1.10 was like Christmas Day every day. At $1.80 it hurt, and hedging can only delay the dreadful day. It's not a solution, it's only a way of trying to manage your way through a crisis, and I think we've got to have made more money out of hedging than we made out of making cars actually.

When they arrived didn't Ford find that the faults per car were still incredibly high?

Yes they did, they certainly did. Ford brought the concept of process management to us, and one of the things that the Ford people will probably tell you is that Jaguar by then absolutely recognised the need, but didn't understand how, and when Ford brought some "hows" they were taken quite readily, and adopted very readily, and adopted with probably more purity and integrity than Ford had adopted those processes. And Jaguar

did adopt those processes. It changed them somewhat to make them more appropriate for a smaller company with a lot of volume. But the essence behind them were understood and adopted. So we started to understand process management, we started to understand teamwork, and we started to understand measuring and controlling inputs. We understood Ford Q1 processes on quality and cost measurements. We actually put back some cost programmes that I put in here when I first came to Jaguar in the early 1970s. And in many ways we went back to basics and made quite radical improvements and started to move the business forward, particularly after about three or four years with the changed trade union environment, which was brought about as much by trade union leadership as it was by management. People like Jack Adams of the Transport &General in those days: a much more enlightened view, much better recognition that we needed to make a whole company before we fought about who had what share. Then we did start to move forward quite radically and quite rapidly, and by the mid-1990s we had made very positive progress, probably more progress in those five years than we made in the ten years of the decade before. Some of that, by the way, was because of the learning we were trying to put in before Ford, in the last days of John Egan. Some of the Deming stuff, and some of the Total Quality Management stuff we tried to drive into the operation which Ford chopped off and said "No, we'll run with these processes" and we did. And then, because we had learned that we understood what these processes were driving at and some of the tools and the techniques of the scheme of things, people were much more able and readily took off and ran with them. In part I think it is why we made so much progress so quickly, say, in the first half of the decade.

When Ford came didn't they write a damning Transition Report which John Egan had a bit of a problem accepting?

Some of it was to get our attention, and to make sure we were listening. And it did that very effectively. None of it was untrue. Some of it had a lot of emphasis, some of it less. We needed to change, particularly in the future we were going to go, and that sort of change was very necessary. And the Transition Report was one of the mechanisms to help us. To get our attention, and then focus us on changing. And it did that very effectively.

How effective was the management team in the 1980s?

I'd say that in some ways we were naïve. We'd not understood the full magnitude of some of the things we were doing, and sometimes they came off and sometimes they did not. But it wasn't all bad by a long way. There were lots of good things that were done, and I've highlighted some of the not so good things. There were lots of positive things that were done. I think the share ownership for employees, for example, was a very positive thing. At the time it was extremely positive and it generated a lot of goodwill in an environment which was very conflict-orientated. The 1970s were awful. In the 1980s we started to move out of that, but nonetheless there was still very heavy conflict. Continuous disputes and strikes. Being a quoted company gave us some problems. In terms of our team there was a level of naivety and some difficulty because in our industry you need to look and plan for the long term, and lunchtime is a long time in the City, and

that pressure was there then, and it made for some difficulties in some of the things that we wanted to do that would have a much longer term. For example, it meant we could not sustain a dispute, and therefore achieving discipline was difficult in an environment where at the end of the day you had to concede. The biggest thing that Ford brought was the knowledge that at the end of the day they were prepared to see us through in wage negotiation and up to then we'd had to devise mechanisms and one of the mechanisms was just talk to them, and in one of the wage rounds we were still talking in March in an attempt to come to a conclusion without a dispute.

Why wasn't there that much Capital Expenditure incurred in 1984-89?

Because we were low-volume, and in order to maintain a credible balance sheet you cannot afford to put huge amounts of capital investment in, which meant the XJ40 was under-invested from a product engineering investment perspective. We didn't have enough man-hours or kit behind the product development operation, even though we did create Whitley etc etc. And in terms of car manufacture the biggest single cost is paint shop and body-in-white body construction, and we were low volume, and therefore went largely for low volume manufacturing techniques which are manual and less automated. We did put some robotics in, we did put some automation in, and we did have a plan which said we would put in a bodyshop with XJ40 which would create all of the bodies for Jaguar from then on. So, we'd put in what for Jaguar at the time was a sizeable investment at Castle Bromwich with a view that we would build it up to five or six different body styles through the same facility, but in the event we never made much more than one.

Why didn't you have a Rights Issue? In 1986 before the XJ40 was launched you could have had a huge Rights Issue. Wasn't the subject ever raised?

No. What was lacking was the long term product vision. We were still mending and getting the base right, and still hadn't done so by the end of the 1980s. So the long term vision of growth and product cycles was not there. The closest we had was the sports car, the XJ41, and it was not coming good out of product development. It was too wide, too heavy, too expensive, and very late.

Transcript of the telephone interview with Martin Bennett on 3rd July 2008

What was your background with Jaguar?

I took control of a dealership in Nashville, Tennessee, at the beginning of 1982.[12] It had been a Jaguar/British Leyland dealership since 1970. I came back to the States looking for a company to buy. I knew the chap that owned it. He was in trouble with it, so I basically helped to get him out of trouble and then bought him out. We were partners from 1982 to 1985 and then I bought him out in 1985, and owned it until three months ago.

So you came in when Jaguar was on the up?

It was just starting. In 1982 the old Series III was just starting to become marginally reliable I suppose one could say. From 1982 to 1987, the last year of that car[13], it improved significantly. We managed to sell them really in spite of themselves. They were still fairly unreliable in relative terms. They still scored pretty badly in the reliability surveys, but Jaguar's brand image was so strong we sold the cars regardless. It was quite amazing.

Why do you think that the brand image was so strong at that time?

For the same reason it is now to a degree. There was always something that was a little bit different about Jaguar. It had a cachet. People dreamed of owning a Jaguar, especially women in the United States, and especially back then. It was more a ladies' car than a man's car.[14] And they saw something romantic about it, quite frankly: the styling, the curvaceous styling, they saw them as a little bit racy. The difference between the perception in the United States and the UK was that in the US the sporting heritage was almost ignored. It was almost lost. Mike Dale tried many times to do something about that in getting Jaguar involved in racing but the Americans saw Jaguar as a luxury car. In England, of course, it was a luxury sports car, or a sports saloon. It wasn't sports over here, it was luxury, and it was its "Britishness" that people were enamoured with. So they bought a car that was far from perfect. As a dealer we used to have to do a lot to the car - what was supposed to be a pre-delivery inspection was actually a partial re-build. It was quite amazing. I always remember in the last year of the car, 1987, we were actually putting lead on the left rear door sill because the tooling at that point was so worn out that you couldn't get a rubber seal big enough to actually stop the wind noise so we would build it up by putting a quarter of an inch of lead in there and paint it, and put a brand new carpet in to cover it. It was constant. With the old Series III wind noise was a problem.

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[12] Martin Bennett, an Englishman, had been involved in the motor retailing industry in the UK before settling in the USA.

[13] The Series III in the V12 form continued in production until 1992.

[14] Mike Dale confirmed this in an e-mail of 8 July 2008 to the author: "On the sedan [saloon] over 50% of our customers were women. On the XJ-S it was more like 30%. At one point we had the highest percentage of women buyers of any franchise in the US".

What about the XJ40?

The best Jaguar ever built? Five million test miles? I remember John [Egan] had all the US dealers down to Florida for the launch of that car. Big, big build up. Everybody was there. It actually cost me, I can honestly say, fifty percent of my Jaguar customers. The car was an absolute unmitigated disaster in terms of reliability, in terms of its systems. It had a large readout – it had a large message centre and if anything went wrong with anything on the car it showed in this big message centre – brake failure and anything you think about failed, and its light came on – glaring, it was so bright at night it was hard to drive. The car was an electronic nightmare. The reliability was just awful. It had a shudder which we first of all went for the drive shaft and so forth, and it turned out it was the prop shaft. And we solved the problem in the end – it was a dealer innovation – we came up with the idea ourselves in the end of balancing the prop shaft and that was the only way you could get the shudder out of the driveline of the car. The car was awful. It was just awful. And it bankrupted a number of dealers because it came at a time when Jaguar were rather full of themselves – the planned volumes for the United States were extremely ambitious. There was an aggressive programme to force dealers to improve their facilities and build expensive premises. Quite a few dealers fought it, other dealers went along with it and spent an awful lot of money based on the targeted volumes they were given which wouldn't have been obtainable even if the car had been one of the better cars on the market. But as it was, the car was a disaster and a number of very large dealers ended up bankrupt.

How do you explain that they launched the car in 1986 in the UK but it wasn't until they launched the US model that these problems became apparent?

There are a few things there. Americans had higher expectations than the British. I don't know whether it was something to do with the conversion to left-hand drive. I really don't know, and Jaguar could never explain. Randle[15] was particularly arrogant when it came to that car. We called that "The Randle Handle". Jim Randle was remarkably arrogant – he would never discuss the problems with the car. I really don't know. I can't give you an honest answer other than to say that the US consumer at that time was expecting far more because they were getting much higher quality from Jaguar's competitors. The whole industry at that point was ramping up in terms of measuring for the first time consumer satisfaction, vehicle reliability and so forth. It was starting to become a focus. And Jaguar had a poor reputation anyway. The old jokes over here: "If you're going to buy a Jaguar you have to buy two because one is going to be in the repair shop". It was cocktail party conversation. "Why do the English drink warm beer? Because Lucas makes their refrigerators". This was cocktail conversation jokes and Jaguar was invariably part of it, and it was something that took them an awfully long time, and a lot of Ford money, quite frankly, to get over.

[15] James Randle. Jaguar's Engineering Director, and a member of the Executive Board.

What was your opinion of John Egan? How did he react as far as you knew to the problems of the XJ40?

The way John reacts to most things. John is a super, super salesman. And he sold the US dealers on the XJ40, and on the things that Jaguar was doing. Let's face it, anybody that could get $2.3billion out of Ford for Jaguar when Bill Hayden told me they managed to identify about $300million of assets, so it turned out they paid about $2billion of goodwill for Jaguar. That's selling! And John was a salesman – he could sell an Arab a bucket of sand! But that's what John did. He talked his way around it.
I remember the first Dealer Council meeting that I attended in Coventry. Mike Dale and the late Gene Fisher, who was one of British Leyland's original distributors over here, in Dallas, Texas, had press-ganged me onto the Dealer Council. I met with the group of dealers in New York the night before we flew to England and listened to them, what they were going to do to the Jaguar management when they got over there, how they were going to rip them new heads and so forth because of the new car.
When we went into the meeting, John got up and addressed the meeting as usual – I like John, you couldn't meet a more charming man – and none of the dealers said a word. I was absolutely astounded. I said "John, I'm the new boy, and I normally believe that the new boy should basically shut up, say nothing and listen. That's what I fully intended to do in this meeting because in New York last night all of my colleagues assembled here were telling each other what they were going to do to you", and, I said, looking at Jim Randle "especially to you Jim. You'd be hanging upside down by now if they'd carried through what they were talking about". And of course Randle, who had no humour, turned red. I said "They're not telling you what they're saying to one another, so let me tell you. They believe your company is totally out of control. They believe that you do not have control of the management of your company because everything they hear from you is good, and everything they see produced is bad. It's awful. The car is dreadful. The reliability is terrible".
I just laid the whole thing out. There was a deadly silence. Then all credit to John, he took it well, the rest of the Jaguar management sitting up there did not, and he thanked me for my frankness and so forth, and said "We will, of course, take this away, and we'll get back to you", which is the wonderful non-answer that one gets. He handled it quite well, but didn't do very much about it, and that's why if Ford hadn't bought Jaguar there would have been no Jaguar today. The company was an absolute bloody shambles, but John created this non-existent contest between General Motors and Ford, and thank God Ford did get involved. My point to John was that "without your dealer body you're dead because we are rebuilding the car; we are doing whatever we have to do to try and hang on to the customer" because John was complaining that the warranty costs were going through the roof. Of course, when warranty costs are high it means dealers' service departments are busy, which on a short term perspective is okay, but on a long term perspective it is not because if they [the customers] have to keep coming in to the service department they'll go somewhere else and buy another car. And that's exactly what happened with XJ40. We couldn't get our service department big enough, we couldn't hire technicians fast enough to cope with the demand because the cars were just rolling back in time after time. Jaguar were buying cars back, trying to do it surreptitiously. In fact we came up with a plan. If Jaguar bought a car back then it had to be declared a buy-

back, and the title had to be branded as such before the car could be re-sold; we said "Why don't you let us trade for you so we will trade the customers out of the cars? You provide the financial assistance to get that done and then the cars won't be branded as buy-backs, they will merely be seen as trades and we can pass them back out through the auctions or resell them to the public as used cars". That way Jaguar didn't have to get caught where other manufacturers had been caught in having to buy-back large numbers of cars and then try to market them with branded titles. My legal counsel advised me that this was not illegal, rather it was using the rules to one's own advantage.

I asked the question to one of the senior marketing guys in Jaguar in the 1980s as to why there were the problems in the States but not in the UK, because demand went down in the States but picked up in the UK in the late 1980s. What I was told was "The UK dealers were prepared to go the extra mile for the customer which the US dealers weren't". Any comment?

(Great laughter!!). I know who that came from. That was Roger [Putnum]. He and I had discussions around that theme a number of times. It was nothing to do with the English dealers being prepared to go the extra mile. At that time the Chairman of the English Dealer Council was Trevor Finn of Pendragon and we used to swap notes because Trevor used to come over to the States to find out what was going on over here. It was purely a question of what the consumer demanded, and the consumer in the United States was considerably more demanding than the consumer in the United Kingdom and what they were prepared to put up with was considerably less. I was Chairman of the National Dealers' Advisory Council in 1989 to 1991 and Mike Dale used to have us involved in all sorts of things – looking at designs and so forth. They wanted our input. I put a pretty good group of businessmen together and we acted almost as a team of unpaid consultants for Jaguar. Mike appreciated it very much because what we were doing was conveying back to the factory what the US consumer was looking for, what in fact they were demanding, in a car. We told them "You want to sell these cars in the US. We are your single biggest market. You should be listening to us". Well, this tended to be dismissed as a bunch of grumpy dealers, when we weren't grumpy dealers at all. What we were trying to do was to get the factory to understand what the US consumer was looking for. What they were coming into our showrooms on a daily basis and demanding, and why Jaguar were not selling more cars, because our competitors were providing what the consumer was looking for in terms of specification in the car. Jaguar was behind the curve in a lot of respects because they didn't have the money to put into it. BMW, Mercedes etc were all getting ahead of Jaguar in terms of the technology they were offering. And Jaguar didn't want to listen. It was a mixture of contempt and indifference. Roger's response was typical – he thought it was just a bunch of grumpy dealers coming over; complaining too much; making far too much money themselves, and not being prepared to plough it back in to keep customers happy. That was roundly dispelled by David Power when he started doing research because the customers reported themselves to be extremely pleased with the dealerships but extremely displeased with the car.[16] So our case was proven

[16] The 1989 J D Power Initial Quality Survey showed that Jaguar dealers came second in their abilities to fix customers problems, although Jaguar itself had fallen to 31st place out of 37 marques (*Automotive News*, 3 July 1989).

when an independent company started actually measuring what the American consumer was thinking and saying. But Roger's stuck his head out many times on that.

How much of the downturn with the XJ40 was awful quality and how much of it was the economic downturn?

Initially it was purely the awful product. We got that car in July/August 1987 and for the next twelve months the economy was still doing extremely well, and did extremely well the year after that, but the car was a disaster. Its reputation was well known after twelve months and people started leaving in droves, even before the economy started to turn down. If it had been a good car it would still have suffered when the economy turned down in 1989/90, but it would have been in a far, far stronger position. As it was it was already in freefall – the economy just compounded that.

Why do you think Porsche declined so rapidly at that time?

They were overpricing their cars. Porsche goes through wonderful cycles. The Germans are amazingly arrogant. I had both Porsche and Audi franchises and their absolute belief in themselves, their righteousness, was quite astounding. Porsche's reliability at that time was not good. Their cars had started to fall behind the curve. They were squeezed economically. They were producing cars with Volkswagon bits on them but charging inflated amounts of money for them, and that gradually dawned on the American consumer so in the 1990-92 period Porsche was nearly bankrupt. I actually bought the Porsche franchise from the chap here in Nashville in 1994 and didn't pay very much money for it because he was selling very, very few cars and had been for a couple of years. They'd really priced themselves out of the market and let their product become corrupted, just as Ford corrupted Jaguar with the X-Type. You were getting things like the 924 Porsche which weren't really Porsches at all – they were out of the parts bucket of Volkswagon.[17]

John Edwards told me that Porsche was a different market from Jaguar. They weren't the same markets.

They weren't really. They certainly weren't competitors.

[17] In an e-mail of 8 July 2008 to Mike Dale, and forwarded to the author, Joe Herson, a leading US Porsche dealer, based in Washington DC, stated, "Porsche's strength was in populous areas in which there were folks with enough money to reward themselves with a Porsche. A very ego driven group. Any economic downturn in the 70s, 80s and 90s had a dramatic negative impact on our Porsche sales in the Washington market. Porsches were at the top of the chain of vehicles we sold for being purchased with extra funds, conspicuous consumption vehicles, and if the customer felt threatened economically, the sales dropped sharply. Of course this was true with luxury segment vehicles in general, but the really selfish cars like Porsche suffered the most".

Who were Jaguar's competitors in the 1980s?

Mercedes, BMW, and when Lexus came along we were all surprised just how good the car was, just how reliable it was, just how well engineered it was, and the worst we could say was "It's boring", which it certainly was – getting in and turning the key and it starts every time, it never breaks down, and so on. Quite a boring car! Cadillac was also a competitor, it's hard to think that now but they certainly were then. Mercedes and BMW were the principal competitors in terms of European groups. Mercedes had overpriced themselves. I was astounded at the reputation Mercedes enjoyed in the United States – that it was a premium, premium luxury brand, when I was used to seeing them in Germany as taxis – the old 240D. They were utilitarian vehicles. Yes, they did make a good strong car, but their image in the United States was that of pure luxury. They were reckoned to be head and shoulders above anyone else. BMW was playing second fiddle to Mercedes, but were still doing rather well. Jaguar was competitive price-wise but was having to struggle to overcome a lousy service reputation, lousy reputation for reliability. People loved the car but it was a part of every joke in the book.

Transcript of the interview with Bruce Blythe on 5th January 1994

What was your involvement with Jaguar?

Prior to 1985 I was the Treasurer for Ford of Europe and John Grant replaced me, and I went into a job called Business Strategy for Europe, or BS for short. In that period I thought that Ford of Europe ought to have a three-legged approach. There ought to be a middle leg that was a bit of a competitor to Alfa Romeo or Saab or what Rover is today, and then it ought to have a top end product, which ended up being Jaguar. The reason I thought that was that I looked at our market share here and I saw so many people who were on a kind of an upward income curve, or an upward status curve, or the maturity curve who would buy Fords until they were in their 30s but then if they had a free choice, and weren't forced to have a company car in a fleet that was exclusively Ford, they'd leave the Ford family. There was nowhere to go to stay with the Ford family, whereas in the United States you had Fords, then you had Mercury, then you had Lincoln. So in the States Ford could track the guy from the time he entered as a Securities Analyst at Warburg or Paine Webber or someplace, all the way up until he was Chairman of the Board, and you could still sell a product in that range and I thought that ought to be a good strategy for Ford Europe. So that was the embryo of the strategy, even without companies being named as who should fit into the medium car slot, or who should fit into the luxury car slot. So that was the strategy. In the fall of 1987 I went to the United States to work for the Chairman as the Head of Diversification, and John Grant replaced me. John's view and mine were almost identical on the need to broaden Ford's appeal to the marketplace if you were going to keep people throughout their socio-demographic growth curve. And if you looked at the marketplace it was abundantly clear that with great tracts of European population maturing and becoming increasingly wealthy that even if the Japanese did come in there was still room for Jaguar because that portion of the market was growing faster than any other portion of the market, particularly if you looked at the segment that the Scorpio was in. The Scorpio and its competitors, Renault, GM etc, used to represent 80% of that size car market 15 years ago. Now it represents 20%. And so, anyone who could afford a car that big wanted more status, more stature, than they could get from a Ford or a Renault 25 or a GM. So at that point we decided that we'd restrict it to Jaguar because we had a very active participation in this middle segment, but ultimately concluded that even this three fishing line approach was still highly focused and we really didn't have the management stretch to take on two new companies and manage them well if they weren't already stocked with outstanding managers. In other words, if you took over Jaguar with all its problems you'd have to devote a lot of Ford resources to getting it to be a world class company in quality, in production, in productivity, purchasing. All the things in which it was deficient. We didn't think we could do that and take on, say, Alfa Romeo.

What about the Saab deal?

We would have had more control of the company than GM has. We'd have had 100%. But at any rate, about that time, for a whole variety of reasons, I came back to Europe and John and I just switched jobs and John went to the US to run Diversification and I came

back here as Vice President of Business Strategy. And so, therefore, the theory was still the same because John and I again still shared the same views of Ford needing someplace for people to go when they still wanted to be with the Ford family but didn't like the cars in the upper end. John therefore was more responsible for getting the programme through the Board Approval Process and I was more responsible over here for actually negotiating with Egan. So that's kinda the background up until the negotiations started. There was high equanimity within Ford on that by the way. It wasn't one of those things that was cooked up in a staff activity and kinda forced through because it caught the eye of the Chairman only. The people in Europe, in particular, were very keen on the acquisition and then hoping to turn it around, and almost everyone in the US was. There was one exception, and that was Poling[18] who was not comfortable that we had enough management to turn around Jaguar.

How much about Jaguar did you know before you actually bought it?

It was a public company so you could know all about the financials. I think Ford was very aware from industry survey data about quality, and hence the presumption of manufacturing productivity. The biggest surprise was their lack of experienced staff in car development. More than anything else that was the single biggest surprise. The secondary surprise, which ran throughout the organisation, was an almost unbelievable lack of knowledge of the competitive world. Because sales had grown from what they were in 1982/83 to what they were in 1988/89 how could you then convince them that they were ropey? You know, sales had tripled and yet I remember the words John Egan used. He said "I don't sell cars, I sell wood, leather, and overall charm". And so I think that John knew that there were all these underlying problems. But if he didn't get the volume up to give him the cash flow to be able to make the investments to fix the underlying problems he couldn't do it the other way round. So I'm a big believer that John Egan absolutely, almost on a personal basis, saved Jaguar. I think his performance was heroic, absolutely heroic, and I'm not sure it's been recognised, and I think a lot of people believe that John didn't know what the problems were at Jaguar but in my own personal view he did, absolutely. He just had to generate the cash flow before he could fix it. He brought in a lot of bright young engineers, but, again, they were all hired in the 1986/87/88 period after the last sedan was launched, and therefore you have an awful lot of very good bright engineers there who have never launched a car. So that's why I said "experienced staff". I think they've got a lot of very good young talented, hard-working, engineers. But I think John knew what the problems were, and I think Ford recognised that those were what the problems were, with the exception of not recognising that there wasn't more experience in the engineering department.
What was John's choice? To tell you "I'm running a wreck"? You can't do that. So you have to, particularly when you're a public company, drive that fine line between saying "There's terrific sizzle here, but there's no steak at all" and on balance I think he got it about as right as he could given the circumstances. Time will tell. He's done a good job at BAA. I think he's a better manager than people give him credit for. I think his strength is in merchandising, in promotion, in advertising, and the development of a company

[18] Harold ("Red") Poling, President, Ford Motor Company 1985-87, Vice Chairman 1988-89, Chairman and Chief Executive Officer 1990-93.

rather than the detailed running of it, but there again that's what Chairmen and CEOs are supposed to do. They're not supposed to be able to fix every machine on every station on the assembly line. He just didn't have the depth of talent to be able to implement his wishes. And maybe you can say it's his fault. He had plenty of time to go hire.

Didn't Ford have a shock with regard to the new model programme, particularly the F-Type?

The F-type I would have kept in but when we got to the Board meeting to decide the fate of the F-type the only two people who were for it were John Egan and me. The criticisms that Ford had of it were appropriate. It was too heavy, it was too costly, and it probably wouldn't have made much money. However, it probably wouldn't have lost much, but it wouldn't have made much money. But killing it caused the company to kinda slump, to kinda sit back and say they don't have any confidence in us. To not have an exciting product to bring people into the showroom at a time when you needed all the showroom traffic you could get because one of your two cars was fifteen years old, and the other one was already five years old and didn't have a very good quality image come to that. So much like GM does a Corvette, much like BMW does a Z1 as a traffic builder, I would have done the new F-Type. It was far enough along that I would have done it both for morale and spiritual reasons within Jaguar but also for commercial reasons. I would have said it's going to be attractive. You're going to have people coming in there concluding "terrifically beautiful car, I hope I can afford one some day, let's buy an XJ6". To me that's the cheapest form of marketing: a new product. To me all the advertising in the world can't beat new product. So I'd have done the new product. It would also have been a statement that here's Ford Motor Company taking over Jaguar what's the first thing they do, they put a replacement on the road for probably the best recognised sports car ever built. So for all those reasons I would have done it. I think Ford was too conservative and took the other line.

What do you think of the view that John Egan stayed too long at Jaguar, that he should have left when the new car was launched, when he was still a hero?

I don't know. It would be hard to be leaving when sales were up 1987 over 1986 by 10,000 units, then 1988 over 1987 by another 10,000.[19] It would have been easy to conclude we're still doing things right. Plus they were making an awful lot of money. Plus the visibility provided by the product. It's easy to walk away, I would think, from a product that was Campbell's Soup, or diapers, or something. How can you get excited about that? But the car business is an exciting business. The product's exciting, the competition's exciting, the public visibility must have been exciting for him. So I'm not sure I could see any signs that he felt he should be leaving although I do think that even in the best of times he and John Edwards really understood that the company was not generating enough cash to be self-sustaining.

[19] Jaguar total wholesales increased by some 8,000 units in 1987 compared to 1986 (as shown in Table 4.2. in main text), and the actual increase in Jaguar wholesales in 1988 compared to 1987 was 1,400 units (as shown in Table 4.3 in main text).

Can we explore the talks Ford had with Jaguar in 1988.

John Grant did that. I was in the US then and he was here. I came back in January 1989. The talks had been broken off late Fall 1988 because Ford did not want to do a hostile takeover. John Egan was robust in his wanting to be independent and, therefore, when he got continued approaches from Ford he simply said he wouldn't talk about it, and he transmitted that to Don Petersen who was Chairman of the Board. And so the whole project kinda went into limbo. They were re-started again when Petersen decided that he'd rather have Jaguar than stick to the principle of "no hostile takeover", and that was probably August/September of 1989. In June/July the concept had been approved by the Board, and then the actual face to face negotiations were in September/October.

What about the lifting of the Golden Share?

We did not know it was going to happen at all. We thought the Golden Share was going to stay and that we were going to take a pre-emptive share-holding so that when the Golden Share went out by law we would be in a premier positive to make a bid. When Ridley actually took off the Golden Share I assure you Ford was as surprised as anyone else. We had not lobbied him to do so, which I think John Egan didn't believe. I think he thought we were in there with the government, but that was not the case. He didn't like what they did but I think they acted honourably throughout the piece. How did John Egan actually take it? The first time we met face to face he knew what the outcome was going to be, and we had had some telephone conversations and some written communications. I suppose John reacted the same way I would have: a feeling that you'd taken this run-down, unrespected, not independent company, made it a huge success - new product, higher volume than they'd ever had in their life, and just when you're hitting the peak somebody takes them over. You'd feel that somebody's stolen one of your children after you'd spent all the trouble of raising it. But throughout the piece, after I suppose that first tirade of real genuine personal annoyance that John exhibited, he was an absolute gentleman for the entire remainder of the negotiations and for the whole transition. Once the game was up, the minute he knew that, his whole effort was focused on making sure the transition was good so that Jaguar would be good, so that there was no damage done in the transition, so everyone who had worked with him and supported him all those years would be looked after as far as possible. So, I thought he acted like a perfect gentlemen. And was he tough? You bet, because he wanted the highest share price for his shareholders and for his executives with their options, and why not? He was a tough negotiator. He didn't get Jaguar turned round by being otherwise.

By 1989 it had certainly become apparent that Jaguar was in real trouble. To what extent do you think Egan was totally aware of the realities of the situation?.

As the realities turned out I don't think John was aware of them, but neither was Ford. I don't think Jaguar, or Ford, or Mercedes, or anybody else expected the US downturn to be as prolonged or as deep as it was. I don't think anybody expected the UK downturn would be three and a half years long. And therefore when those two markets, which represented 70% of Jaguar's volume[20], both fell into the pit at the same time it spelled big trouble. I think people knew that the late 1980s boom was over, but I don't think they felt it would take three years to shake through the excesses in the system and come back to growth again. So was John aware of it? Yes, I think he probably was, but I wouldn't say Ford was any wiser on the duration or the depth. I think Ford thought, I certainly did, that there was going to be a downturn, but a kind of a normal downturn, one lasting 18 months. Six to eight quarters of negative GNP, but not negative GNP by a point a quarter. Traditionally what had happened was that the US had gone down, and Europe was up. What happened this time was that the US and UK went down but Continental Europe stayed strong. But Jaguar didn't have a very good distribution network on the Continent so it couldn't benefit from that strength. Having said that, the Ford approval of the Jaguar purchase concluded that there would be two/three years of losses and that the real value of ownership would come in ten years' time. Now, having said that, the Board forgets after a year and a half of losses that that was the scenario.

What about the problems that Jaguar had started to experience from the end of 1987 onwards – that Jaguar was losing market share quite simply because word was getting around that the new car was worse than the old car had ever been?

I think John was aware that those were problems. I think he was less able to figure out how to fix them. I think he could get on the backs of his operating executives and say "By God Joe you've got to fix this; Ian, you can't let that go on" as opposed to saying "Ian, here's exactly what I want you to do to fix this problem". So, I think that might be a distinction. But again, this was a hostile bid for Jaguar, so Ford couldn't get inside and understand those issues in advance. I can only speculate on what discussions were like inside Jaguar prior to October of 1989.

When Egan left Jaguar was it on a friendly basis?

The very first face to face meeting that we ever had with John, when he knew he was cornered, that he couldn't get out, he made a bit of an opening statement, and then said "You understand I will not be able to stay with the company. After being independent, after being the Chairman and CEO of a company it is impossible then to run a subsidiary of a great big company. I've done that before. I didn't enjoy it. You're second-guessed all the time, and while I'm perfectly willing to help with the transition, I will not permanently stay with the company". So, from the very first face to face meeting we knew that John would not stay. There was a mixed bag inside Ford, after the acquisition

[20] In the period 1982 to 1992, only in one year, 1991, did the combined UK and US sales fall below 70% of Jaguar's total sales (as shown in Figure 5.7 in the main text).

and during the transition, as to whether we should try to convince John to stay, but I don't think he would have. There was no hidden agenda on his part at all, from the very first meeting, probably within the first fifteen minutes. There were three of us there: Lyn Halstead, Chairman of Ford of Europe, John Egan, and myself. At all subsequent meetings John Edwards was there. He was on the firing line too. In any acquisition, of course, you get the two heavyweights, the two Chairmen, which were Halstead and Egan, but the real negotiations, the real financial deal, the real bid, is all done one layer down. In this case, John Edwards and I plus any number of overpaid investment bankers.
One of the reasons that there was a split camp within Ford over John was that when he was trying to defend his independence, with great robustness, he really offended a couple of executives at Ford, Don Petersen being one of them, and so those aggressive remarks he made to try to keep Ford at bay, people remembered a long time after they were made, so that's why there was a split camp: a camp that said "Now wait a minute, here's a guy who took the company from 12,000 units to 50,000 units, don't you think we ought to capitalise on his goodwill", while there were others who said "He was so rude, so aggressive to me, that I'll never be able to work with him".

What is Jaguar's future now?

Over time I think the only successful way to run Jaguar is to further integrate it into Ford, and I don't mean that in a negative way. But if Jaguar could have been independent entirely, it still would be; it would still be profitable, it would still be showing the cash flow, but there is no chance that independently Jaguar could have survived the last downturn, none whatsoever. But it just seems silly to me to have an accounting department in Essex and an accounting department in Coventry. The customer doesn't care about who pays the invoices. Why should you have a steel buyer in Cologne and a steel buyer in Coventry? So those things that are invisible, that don't matter, you get a huge economy of scale by co-operating with Ford. That ought to be done. Those things that are independent, like design, sales, marketing, government affairs, public face, that all ought to be still Jaguar. But to not take advantage of what Ford could offer would (a) deviate from the whole reason for buying it in the first place and (b) would be silly; it would just perpetuate the reason Jaguar couldn't be independent.

What about the issue of the commonality of components?

If you could actually take the Jaguar technical headcount and say to them "Look I'm not going to make you worry about air bags, I'm not going to make you worry about door locks, I'm going to let you concentrate on the things that are sexy, that are fun, that are exciting. We're going to take over worrying about the greasy bits" then both sides win, because these guys are then all charged up. And so, I think the whole thing is more exciting, whereas other people say "Oh my God it's being polluted, and it's not going to be a pure Jaguar any more". The answer to that is "You're absolutely right, because if it was Jaguar wouldn't exist". So I think a deeper integration into Ford in the areas that make sense are all to the good. The new engine is 100% designed by Jaguar. It's their engine. Now, if you were a sane man would you build it at Radford, or would you build it at Bridgend? What do they get? They get the best quality technicians anywhere in the

world, they get inspectors who can inspect the Jaguar line whilst at the same time they're doing something else, so they can be much more productive or their use of indirect labour. And yet they'll still get their engine. Yet the fact that it's being built at Bridgend people are saying "It's not a Jaguar, it's a Ford engine". Well, that will go away over time. For Pete's sakes, the Lexus comes down the same line as more basic models in Japan, the same line! Yet nobody thinks the Lexus is a second-hand product, or a hand-me-down from a Toyota. So there's a big mental block. Part of it is still in the company; it's not just the external bias. The Jaguar owners who say "Well, this is criminal". The answer is if we're going to crack another 100,000 Jaguar buyers in the next few years in addition to what they have today Jaguar still won't be viable as an independent. That's the whole point, the whole rationale behind the purchase. Integrate the things that make sense to get your cost base down so you can be competitive with the Lexuses and the Infinitis of this world. Improve the quality, not only on the existing cars, but on the new ones which have to be absolutely world-class products. And then the Jaguar people do the enhancements that still make the car a Jaguar. It's the only way forward.

If Jaguar had got the warranty problem down to Ford levels, and got productivity up, and other costs down, wouldn't they have been able to weather the recession?

I think they were unable to do it, not because they resist the good idea, it's just that they were so insular in Coventry, and doing so well going into the recession, that there was no forward thinking. Even if you discover "Gosh we're not making money", if you'd been that isolated for that long, who'd you then turn to to get a helping hand that says "Look we've been through all that before, these three ways didn't work very well for us, but this way was terrific" so they could put them on the right path rightaway. Whereas by themselves they might have tried two or three other things that just didn't work.

What about the negotiations Jaguar had with GM in 1989?

That's partially why Ford acted when it did and decided to go from a non-hostile to a hostile approach. A non-hostile approach would have taken the possibility of any association with Jaguar right out the window because they were going to do a deal with GM. It was a deal that would have given Jaguar some independence. It was structured not unlike the Saab deal. GM claimed that it wasn't, and it was because they didn't want to appear to have lost. But I am absolutely convinced that within 10p per share GM had already put a bid on the table. We were only interested in a 100% takeover. Over the years we had experience with joint ventures that were 50/50 whatever, and with the exception of the AutoLatina one in Brazil/Argentina, and the AutoEuropa one in Portugal with Volkswagen things didn't work. We had to be in control, and the worse the company was that you were taking over the more control you had to have, so there was indisputable control to sort it out. So the reason they liked GM was that GM was more of a co-operative deal that they could grow into. Perhaps starting with a big minority shareholding in Jaguar, and then over time perhaps increase the shareholding, or increase the co-operation, or increase the product development overall. And that appealed to Jaguar because they'd have the best of both worlds: (a) they'd stay independent and (b) they could call on a much larger range of parts. Rather than evolve their own air bags

they could call on GM and ask "Do you have an airbag unit that fits this profile?". So that's why I think GM looked very attractive to them.

The price Ford paid for Jaguar was, quite frankly, incredible. Why didn't you come in with an offer below the share price in the market?

Ford would probably have done that, except we had it on very good authority that GM had already put a bid in at pretty close to the market price, so their Board would have been justified in saying "You've bid a couple of pounds under the market price and you've bid a couple of pounds under a competitor, why in the world would we take your bid?" So in present hindsight the price is much too high. It will take a long time to pay back. But again, it was always thought to be a ten-year payback period, and, again, people forget that instantly when a company loses money, but there was no deluding the Board that the decision they were making was a ten year one, not a two year one.

Were you at all worried that you were going to get into a shooting match with GM?

Yes, and therefore we had limits that we would go to. We never had a limit that was as high as the stockmarket price, because we had a whole set of calculations showing that at such and such a price and such and such economic and volume assumptions over the next ten years here would be your return, including what investments you'd have to make over time, and that price was not as high as the stockmarket price. As it was it was slightly higher than what we believed GM had.

Wasn't Egan trying to play you off against GM?

Not that overtly, but my guess is he was. The minute it became clear that we were willing to bid slightly higher than GM it didn't matter how big was his ace in the hole, it had just been cooked. And that's why I always admired John's ability to then be co-operative after he knew the game was up. He thought he had this careful defence with the Golden Share He had another defence with GM standing behind him offering all this co-operation. And so he thought he'd not only built a good company but he'd built a good restraining wall around it. When Ford came trampling over the restraining wall of course his original reaction would be negative, but once he knew the game was up his only interest was in preserving Jaguar. If he'd really been out of sorts he'd have quit the day after the bid was successful, but he didn't; he was there for another five or six months. He worked hard at the integration, he worked hard at trying to make sure that the right things were integrated and the right things were locked into place. He worked hard at trying to inform the Ford people about the problems that Jaguar had. So it wasn't like he just sat there.

Didn't he have a very hard time accepting the Transition Report?

He did. Again I'll use the analogy of you raising a child and just as he starts to bloom somebody else writes a report about it that's damning in almost every way. As a parent you'd react pretty badly. And the report was worded in a way as to be wholly insensitive. I don't know if it wasn't 100% accurate by the way. But it's just hearing your faults called out in public in quite an abrasive way. His successor, Bill Hayden, was not very diplomatic. Having said that, one of things Bill did was start getting the quality better. Every company measures its end of line quality as best it can. When we took over, the XJ40 on our measurements was five times worst that the Scorpio. Five times! Before Bill retired it was better. That's almost impossible because one of the things that was an albatross around his neck was that supply quality was lousy, and yet when you went to the suppliers and really started to raise the roof about them not building parts to specification it became pretty clear that if they built to specification you couldn't put the car together. It was engineered so loosely that they had accommodated the engineering deficiencies by modifying the parts on an informal basis, so that when you were trying to hammer them on the head saying you've got to have better quality, better prices, better productivity etc etc and you've got to build to specification they were saying "Yes, okay, I'll do that, but what happens to your cost curves? You won't be able to build anything". Despite that, Bill got up the quality better than the Scorpio, and the Scorpio's a pretty good quality car. So, while his public statements were, I think, unfortunate, particularly in talking about things like Browns Lane being no better than Gorky, stuff like that, which was meant for internal impact but which unfortunately was said in public, the things he did had to be done if Jaguar was ever to be a successful company. And, as you know, if you went to Jaguar today compared to 1986 you'd see a lot of the same faces.

Of the senior people, only John Egan, Jim Randle, and Pat Audrain have gone. Is that correct?

Yes, other than the natural retirements: Kenneth Edwards[21] and Graham Whitehead[22]. Of course Mike Dale who was Number Two to Graham in the US replaced him. But I'm pretty pleased that the likes of Bob Dover[23], Mike Beasley, John Edwards, David Boole[24], and Roger Putnam are all still there. If Ford had been as bad as a lot of people made out in its stewardship they'd have all been gone. For starters they all made a hell of a lot of money on the takeover, so they weren't economically desperate. Of course Mike Beasley used to work for Ford years ago, used to work for Bill Hayden specifically years ago. Jim Randle wasn't acrimonious either. Jim was just at a different pace and with Lexus coming out with new cars every thirty-six months, and Jaguar thinking seventy-two months was a big rush. Jim was more academic, he was more theoretical, and he was a perfectionist. You kinda admire guys who say "My God, I'm never going to release this

[21] Kenneth Edwards was a member of the Jaguar Main Board, responsible for personnel, and was also Company Secretary.

[22] Graham Whitehead CBE. President of Jaguar Inc, Jaguar's North American distribution company, and a member of the Jaguar Main Board.

[23] Bob Dover joined Jaguar in 1987 as the Executive Board member responsible for manufacturing.

[24] David Boole. Jaguar's Director of Communications and Public Affairs, and a member of the Executive Board.

car until it's good enough, until it's perfect". Well you've got to have a compromise between something that's perfect from a technical, engineering standpoint, and something that's commercially viable, and I think Ford pressure to try and speed up the whole process sat uncomfortably with Jim, so that's why he left. But Jim was one of the few people that left directly because of the Ford takeover. The other people either adapted to the style or the Ford takeover had very little effect, like David Boole or Roger Putnam.

Was it a relief for David Boole to have got the City out of his hair? I believed that Jaguar never really knew how to handle the City.

I could tell that in our meetings, because again I was in charge of Wall Street's relations with Ford when I was in the US years ago. I knew how I dealt with those people, and then I saw the way that David Boole dealt with you guys at some of these meetings. It was almost an arrogance that had built up because of the success of the company in the last few years, and of course I found that uncomfortable, but that's what had worked at Jaguar, and it was going to be irrelevant after we bought Jaguar.

Transcript of the interview with Bob Dale on 3rd May 2007

What was Lucas supplying to the Series III in the early 1980s?

Pretty well everything we made. But there were few diesel cars in those days, so with the exception of CAV[25] it was pretty well most everything else. Certainly you have the full range of electrical equipment, without too many exceptions. Starters, alternators, ignition systems, fuel injection systems, switchgear, relays, Girling disc brakes, RISTS wiring harnesses. I think it was the full range of Lucas equipment with the exception of CAV. And, of course, the aftermarket support before Unipart became responsible for that.

How much truth was there in Egan's assertion in the early 1980s that 60% of the faults on the Series III could be attributed to suppliers?

(Great laughter!!) I've no idea about the 60%. That's such a general figure. It sounds a bit like John Egan-speak to me. Given that Jaguar was largely an assembler it would have been heavily dependent on suppliers for everything it didn't make for itself, naturally. So, if you include in suppliers sheet steel, nuts and bolts etc you can see that Jaguar's added-value content might only have been 40% of the total final value. So if he's saying that 60% of the problems came from the suppliers who represented 60% of the added value, I'm sure that's not a correct figure. I think that what is true is that in the 1970s the component supply industry had as poor a quality and reliability reputation as the British vehicle assemblers. We were all tarred with the same brush, and we were without a doubt in the American perception of British vehicles seen as being bloody unreliable. As you know, the only vehicles we were exporting to the US in the late 1960s and early 1970s were sports cars, and prestige cars like the Jaguar. The sports cars, Triumph and MG, had a bloody awful reputation, including the electrical equipment. The electrical equipment was notoriously unreliable in North America. That was partially down to the fact that it was having to put up with temperature changes which were never experienced in Britain. Our temperatures in Britain rarely got down to 0F or up to110F. People were used to working within a much more modest temperature range, and some of our electrical equipment was temperature sensitive, or had water ingress problems.

Was this a specification problem rather than a component part problem?

Yes. Talking about industry generally, the British motor industry in the 1970s was a total mess. Companies had been cobbled together. The whole BLMC syndrome. And it was driven by Leyland initially. The concept of having a nationalised motor industry driven by a company that hadn't had a great deal of success, ranging from trucks to production cars! If there was one thing that was required it was focus. And, of course, in those days most vehicles being sold to the British were still British-made, so there was an element of complacency, an element of disorganisation, and that most certainly fed over into the components industry. Lucas in the mid 1970s was fat, a bit lazy, not too well organised, was carrying a lot of loss-makers because it had to carry them, not producing anything that was acceptable or adequate, and was symptomatic of many others in the components

[25] CAV was the Lucas subsidiary supplying components for diesel engines.

industry, with one or two notable exceptions. Had it not been for the constant velocity joint, which was developed in Germany and was a real winner, GKN would have been in serious trouble. They were carrying businesses. And this whole attitude of industry in the 1970s: poor management, difficult trade unions, poor investment for the future, living on a day-to-day basis. I don't know how we got through. We wasted a lot of time on meetings with trade unions and so forth just to get through the next month. And this was happening in the motor industry. It certainly happened at Jaguar. And it's easy to blame everybody else because the blame culture comes into it.

Any comment on Egan's address to the Automotive News World Congress '82 when he stated Jaguar was making suppliers pay for costs re defective parts?

I wasn't actually dealing with Jaguar at that time. From 1981 to 1985 I was running Lucas World Service which were the international service operations. I do remember meetings with Jaguar on service issues which included warranty and I do recall where we had a contractual arrangement sitting. Didn't we honour our warranty obligations? I think there's a bit of John Egan speak here: "I've got the suppliers to take their responsibilities seriously". Well my answer to that is that there was never a time when we didn't take our warranty responsibilities seriously. I don't ever recall us failing to do so, although we would argue naturally about the limits of certain warranty issues, especially if there was any suggestion of a recall because that's when it would get truly expensive. None of our components failed, particularly brakes, of course, where there was a safety issue at stake. If there was any suggestion of a recall being required where all vehicles had to taken back to the dealers and checked, a highly expensive exercise, we would certainly argue the toss. We would want to be absolutely sure that (a) it was a component problem and it was ours, and had been fitted by the manufacturer or even by the dealer, depending on the component, and (b) that a total recall was necessary, because it was very easy to have a recall that someone else was paying for. Under those circumstances we would take issue with a manufacturer. That aside, I don't remember there being any major issues with vehicle manufacturers about Lucas warranty in any way being reneged upon. Where it became a little bit more difficult was where warranties became extended to three years. When you make a move such as that you have to be sure that your suppliers are competent, be confident that their products can survive the three year warranty. That became a bigger issue later. Automation in manufacturing techniques certainly allowed us to improve our products so that in the 1970s we could underwrite 12 month/12,000 miles warranties, two year warranties by the 1980s, and three-year warranties by the 1990s.

What did Lucas supply to the XJ40?

It may not have been starters, and possibly not alternators, since in 1986 we sold our Starters and Alternators business to Magnetti Morelli. But, in any case, I think that Starters was now with someone else – it might have been Bosch. The switchgear products would have been Lucas, and wiring harnesses would have been RISTS, and Girling disc brakes, but there might have a second supplier here. I doubt very much if the disc brakes gave any problems. I'm fairly confident that the warranty issues on the XJ40 was not a Lucas problem, but someone else's problem. I would say that that was more a Jaguar thing; either failure to specify exactly, or a change in specification, which was incidentally an on-going problem in Britain until the discipline brought by the Japanese. Nissan, in particular, brought that into proper perspective. But we, the component industry, were constantly faced with post-production changes in specification. It was a nightmare, especially in the early 1980s. Talk about oops! Only three months into production and "we want this and that changed". Generally you'd often find a re-spec, say, three months after launch; possibly a fitting, or an up-rating. We were often faced with a re-spec after launch. It's absolute turmoil, and often the assemblers wouldn't pay for the new products. I think that component failure on the XJ40 was compounded by arrogance on the part of Jaguar, seeing it as a car that will never fail.
A good example of a design fault was the transverse engine on the Mini and the open grill. They put the electrics between the engine and the grill. It was a low slung car, so in wet conditions water poured through the grill unto the electrics (distributor coil etc), leading to shorting. So it was put down to being a problem with the electrics. This is what happened in the 1960s. The ignition problem was obvious to everyone. Their answer was to shove a cover between the grill and the electrics – but the radiator is supposed to cool the engine, so the engine now was overheating. The problem was a design fault in putting the ignition on the wrong side of the engine, but it was seen as another case of 'Bloody Lucas! This obvious example repeats itself. The chances are that it's going to be an applications fault because of how or where it's fitted.

You said you had a lot of contact with Egan in the late 1980s. What was it largely about?

It was a combination of things. You have to remember that the years 1986 to 1990 were very good years for the economy. They were good years for exports. The motor industry in Britain was doing well, with two million vehicles being produced per annum. Under those circumstances the British motor component suppliers were well placed to do well. Coupled with the fact that a lot of those suppliers were exporting to Europe and North America. So those were very good years. I remember a number of meetings that John Egan had with component suppliers at Browns Lane, and it was all about growth, expansion, new markets. It was very bullish. It was all about building and building. The technical centre was rumoured at one point to be a new production plant. We had quite a few fish to fry. The Japanese were arriving. John was looking for commitment from suppliers given the expansion of the industry. Jaguar with its measly 50,000 vehicles might have been put on the back burner. That was all good stuff.

How tight were they on pricing?

They were quite professional. The industry had moved on from what was sloppy. Jaguar, like all manufacturers, was into continuous improvement in a big way. Continuous improvement became a watchword. You have to improve on performance, you have to improve on product reliability, you have to improve on price. Those were the messages we were getting from all the manufacturers, including Jaguar. So there was nothing cosy at all. There was a lot of European competition. Jaguar were pretty hard-nosed, as they all were by then.

What about the reduction in prices demanded by Egan in 1988/89?

Complacency is an unfortunate British habit. The XJ40 was a premature launch. "Just in time" was a way of reducing costs, warehousing etc, but the Japanese had done that successfully in the past in the sense they had tied suppliers, owned by the manufacturers, or were directed by the manufacturer, whose factories were next door to the assembly plant. The discipline of "just in time" had become well established in Japan. The idea of "just in time" was adopted as a concept, but the practicality of "just in time" in Britain was not seen as feasible, or was seen as too risky. I can't honestly say that Jaguar implemented "just in time" with their suppliers in the way that it was understood. It was very much a Toyota system in Japan. It was all good stuff. There were lots of Japanese-style watchwords coming through, some of which were not entirely appropriate to a small specialist car manufacturer.

Transcript of the interview with Mike Dale on 17th June 2007

How would you describe the relationship between Jaguar Inc and Browns Lane?

Hostile in the sense that you had a bunch of people in Jaguar Cars Inc who'd gone through the MG/Triumph situation. We had consistently put dealer bodies together, which I did in the 1970s to sell MG and Triumph, which turned the US into one of the few profitable parts of the world for BL. It was an enormous amount of hard work. Jaguar was a very small part of the business, only about 3,000-4,000 cars a year, out of a total of 60,000-70,000, so it was neither here nor there. It was nice. It was the cream on the pudding as it were. But the cars steadily got worse from a quality point of view. Nobody in the UK listened. And I'm talking about Sir William [Lyons] and "Lofty" England.[26] We did studies of the problem. I remember handing this book of a study that Guy Larkin[27] had done at my behest; a comparison with Mercedes Benz dealerships. We're talking 1970/71 here. It was handed to Lofty England who just put it in his briefcase.[28] We were enraged really by the fact that the Brits just didn't understand what a savage marketplace the US was turning into, particularly with the advent of the Japanese, and of course we'd gone through the TR7 debacle, which was horrendous.[29] When John Egan came into the business most of us had other jobs on offer, and, I have to say this for John, he was the first British automobile executive, bar none, who liked the US. Sir William didn't like coming here. The BL people had a very old boy, snobbish British attitude towards it. They thought it was fickle. It was, if you made crap, and we certainly did. John came as an absolutely tremendous breath of fresh air, and you'll see it reflected in the Fortune article in 1986,[30] because he did make an honest attempt at fixing the quality. He was listening, he was straight up about the whole thing, and he displayed considerable personal courage. There was no doubt about that. And we believed him. They did make as good an effort as they could to change things. But for fundamental reasons John was embarked on an impossible task. Nobody, nobody could have saved Jaguar in the 1980s, and I say that in retrospect having worked for a professional company[31] for ten years. That was an education in itself. John at that stage inherited a company in the US that was angry that MG and Triumph had just been thrown away, particularly as we'd built it into one of the most profitable franchises in the US. We have NADA[32] input out of the 1970s

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[26] "Lofty" England was Jaguar Deputy Chairman and joint Managing Director at this time.

[27] Guy Larkin at the time was one of the District Service Managers for Jaguar-Rover-Triumph Inc.

[28] In an e-mail of 7 August 2007 to the author, Mike Dale elaborated on this incident: "As soon as I took over US Sales and marketing for Jaguar in 1970 I was appalled by the quality level and tried to do something about it. Guy [Larkin] came up with the idea that he should take a Mercedes Jaguar dual dealer and examine its service records for both marques over a period of three months. He did so and the comparison showed Jaguar to be in a hopelessly uncompetitive position. Sir William and Lofty England visited the States shortly afterwards and I made a presentation to them on the subject. Sir William took the book and without a word handed it to Lofty and that was the last we ever heard about it".

[29] Whisler notes that the build quality and reliability of the Triumph TR7 sports car was harshly criticised by motoring and consumer testers, and that "a complete redesign of the model in 1978 could not shake the initial negative image". The model was discontinued in 1981. (Whisler, Timothy R. *The British Motor Industry 1945-1994. A Case Study in Industrial Decline.* (Oxford, 1999). p351).

[30] Dale, Michael. "How we rebuilt Jaguar in the US". *Fortune.* 28 April 1986.

[31] Dale is referring here to the Ford Motor Company.

[32] National Automobile Dealers Association.

to show that. And they just destroyed it. We went to see Michael Edwardes and when I explained to him what was going on he got up and said "Well I think I'll leave before I get depressed", and that was all the reaction we got. Toyota offered me a job, and it was a really good one. It would have doubled my salary, and I was really seriously thinking about it when we went through the MG situation, but based on John I stayed. John sold himself very well, both inside and outside the company, and he did do a lot of good things to begin with, but the relationship between the US company and Browns Lane wasn't good. We knew they [Browns Lane] were incompetent, and they proved it over several decades. John was trying to change that, but there's no doubt about it that within Jaguar in the UK, and it probably existed all the way through the 1990s, the attitude was "the bloody-minded Yanks coming and beating our heads in".

But the [Egan] Board, early on, had the brilliant idea of handing the US distribution over to Lincoln Mercury which would have taken us back to the dark ages of the distributors.[33] Ed McCauley[34] and I had spent ten years buying them out, and it was one of the reasons we were so profitable in the 1970s. The reason stated to us was that Lincoln Mercury were prepared to offer sales of 10,000 cars in the first year of business. This was a big temptation to a company desperate for sales and would have been a life saver in the short term. However, it would have taken over the world's largest market at the time and given away at least 5% of the margin forever, plus losing control of half the production line volume. They would have had their hands around our necks and could have wrung all sorts of concessions from us in bad times just to keep the production lines going. In addition, when we bought all the BL distributors we literally took their margin and, through the centralisation of buildings, computerisation etc, did not replace any of their overheads. It was an enormously profitable deal and it left the factory, not an independent distributor, in direct touch with the dealers. Keeping the hard won distribution rights within the factory management was the key to turning Jaguar around from both a profit and volume point of view. It had taken ten years of hard work by Ed McCauley and myself to buy the distributors, and we were bloody angry that once again we were working for an inexperienced management that didn't understand how to market in the US. It took us years to convince the BL lot to do it, and that they agreed shows that not everything they did was bad. The negotiations with Lincoln Mercury were kept secret by the Board because they didn't want us to desert ship, but we had friends in Lincoln Mercury who told us about it. We were enraged, and when I told Graham Whitehead that we knew, he almost had a heart attack. Why he hadn't pointed out the problems immediately the idea was mooted is a mystery, but he certainly did after Ed McCauley and I pointed out to him the error of the Board's thinking! We never trusted the Board from then on.

We had plenty of reason to shout at the factory when we found ourselves on the receiving end of things like XJ40. We had a towing policy in the event of breakdowns. We sold about 20,000 cars the first year and we towed 40,000 times. In theory we towed every single vehicle twice. There was a free towing service, and in the first year we did 40,000 tows. Well we only sold 20,000 cars, and we didn't start the year with 20,000. It was

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[33] At this time Jaguar's North American distribution was handled by Jaguar-Rover-Triumph Inc (JRT Inc), a wholly-owned subsidiary of BL. It was not until 1982 that the North American company came under Jaguar's direct control and its name changed to Jaguar Inc.

[34] Ed McCauley was the Treasurer of JRT Inc/Jaguar Inc.

20,000 at the end of the year. XJ40 wasn't just bad, it was stunningly bad! I'll give you a nice statistic to show you how bad it was. We learned in 1995 when you looked at the five-year JD Power results it showed that the Lexus 400 in its first five years of life had the same number of defects that the XJ40 had on the 1990 XJ40 in three months. What is more the 1990 was a far better vehicle than the 1989 model. So, we were on a licking to nothing. We had about 200 engineers. We had Jim Randle, and Jim, nice man, had no training in producing a car for production. BMW at that time was sitting on 200 engineers just keeping a model line going. Jim Randle was trying to run two model lines, the XJ-S and the Series III, and was trying to put the XJ40 together on 200 engineers. So he could have been a genius, but it wouldn't have worked.

What were the main problems with the XJ40?

You wouldn't know where to start. The only good thing about the car was the engine. It was very sound, so was the gearbox, and the rear axle. Everything from door handles, door motors, windows, the bodywork didn't fit, the wind noise was horrendous, to the self-levelling suspension – absolutely bloody hopeless: it seized up, it collapsed. The windows wouldn't work, the door locks gave up, the doors wouldn't shut because they didn't fit, and we were plagued with wind noise and water leaks. It didn't overheat, which was a first for a Jaguar.[35] Malcolm Oliver, who worked for me and was the project engineer on the XJ40, told me in retrospect, in the 1990s, that there were over 250 things that we knew were wrong with the car that we simply couldn't fix because there just wasn't time, there just wasn't the engineering ability. In other words the Jaguar management, all of us, had two things going for us: we were on a licking for nothing, and we didn't know it because we were enthusiastic, full of passion for Jaguar. Everybody, including the UK. Hard working people. I'm not talking about laziness here. Some of them survived Bill Hayden, which is saying something. John and I fell out over some things as things changed, the XJ40, for instance. With the XJ40 we had a system by then that when they went through pre-delivery inspection at the port. We could tell immediately whether we'd got a problem car because we'd got lots of comparable data with previous vehicles, so we knew whether we'd have to rebuild the thing down there at the port. This was shortly after the US launch in early 1987, so this was before we got into the Fall of 1987. Within a few weeks we knew we had a problem. As a result I went over and see John with all this data and said "You've got a disaster on your hands". John said to me about a week or two later "You've put me in a panic for absolutely nothing etc

[35] Mike Dale added in an e-mail of 13 July 2007 to the author: "Things like air conditioning and cruise control were standard on all the US models, and they did add to the quality problems. More parts always bring that risk, but it was not that sort of thing that brought the car to its knees. If you left the vehicle for more than a few days the batteries went flat. The battery was good for thirty days even if fully charged because of the drain from all the sleeping electrical devices. A lot of our vehicles were owned by people who travelled, and left their cars at airports and came back to find the car immobilised. The windows wouldn't work, the door locks gave up, the self levelling suspension seized up. The doors wouldn't shut because they didn't fit, and we were plagued with wind noise and water leaks".

etc", and he and I did not see eye-to-eye over the whole thing at all.[36] A few months later he came to the US, and he went to the opening of the new dealership down in Texas of the Jaguar Dealer Council Chairman, Gene Fisher, who really was one of the heroes of the whole thing here. He's dead now. Gene had just put this tremendous dealership together. Quite a number of the dealers here went bankrupt; quite a large percentage. We lost some really good dealers as a result of the XJ40. There was deep feeling of anger in the management of Jaguar Cars Inc towards the UK because once again they'd done it to us with XJ40.[37]

Another thing that John and I could not see eye to eye over was building a convertible from the XJ-S. It was patently obviously by 1981 or 1982 that the coupe market over here wasn't going to make it, 80% of the E-types we sold were drop-heads anyway. We needed a convertible. Jim Randle, when John came on board, had reputedly said "I have three wishes to keep Jaguar perfect, and you must grant me these three wishes". One of these was that Jaguar would not make a convertible out of the XJ-S. He didn't think it was feasible. I was more full of enthusiasm than ability. Knowing that Chrysler had done a really good bunch of convertibles for this market through companies like Hess and Eisenhardt, off I went to Hess and Eisenhardt, and a couple of other companies, and asked them if they could make a convertible out of this. Some really funny things happened. First, we sent them drawings and we sent them the car. They found that the drawings didn't match the car. Our manufacturing methods were really out of the 1930s and 1940s! Anyway, we paid Hess and Eisenhardt to make a convertible, and it was beautiful. So, when John came out we showed it to him. John apparently had some agreement that before the contract to build it was signed there would be a quality sign-off by the factory, but I don't know what happened there. We built 2,000 of them and I think we sold them three times because we bought every one of them back twice. What had happened was that they had to load up the back end of the car with so much stuff to make it strong again after they'd taken the roof off that the rear suspension collapsed, and they had to keep jacking it up. But in the meantime what had happened was that we'd shipped it to England and of course the guys there, and there were a lot of good guys there, said "We can make it better than this". Jim was not very happy with me about this. I ruined Hess and Eisenhardt, who went bankrupt. The only really good thing that happened out of it of course was the XJ-S convertible which was really an elegant car. Jim did a really good job on that. But we're back into this business of nobody's a villain, nobody's pure either. There's good, bad all over the place. Jim did a fine job on making the XJ-S

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[36] Mike Dale added in an e-mail of 13 July 2007 to the author: "I can only guess at why John had not been told of the quality problems in the UK. There was an arrogance about the UK Board which may have blinded them, but I don't think there was anyone in the senior management who had the data, or the courage, to tell John even if they knew. British customers at that time were far more forgiving of poor quality and in a small country a car is not the vital device that it is in the US where public transport outside of the cities is not good. As one British engineer said wonderingly one day 'A car in the US is just like a pair of shoes'. The US was easily the most brutal market in the world at that time because there were more manufacturers competing here than anywhere else in an unprotected market. The UK people were living in a protected universe. We weren't. The Japanese had changed everything."

[37] Mike Dale added in an e-mail of 7 August 2007 to the Author: "Nothing, absolutely nothing, decides an auto company's profitability more than residuals. Over half Jaguar's profit turnaround in the 1990s came from an increase in the XJ40/XJ8 residuals of $9,000 per car. You cannot have good residuals without good quality. It is impossible."

convertible, and, of course, the sales just took off.[38] It kept the car going really for another ten years.

Didn't John Egan appreciate the real problem he had with the XJ40?

No, not to begin with. He did after he'd been to the Gene Fisher opening. At that point John flipped 180 degrees. The reason I know that is that he arrived back on a Saturday morning in the UK, and didn't even wait to get out of the airport before he was wringing Jim Randle's ass. The reason I know this is that an hour later I get a call from Jim Randle saying "What have you done to me? You've shot me in the back. I've just had John on the phone telling me that the XJ40 is a disaster". I said "Well, Jim, three months ago, if you remember, you were telling me I was panicking you all for no bloody reason". It was John who had said it, but the penny hadn't dropped with Jim either. Although John hadn't accepted it at first, to his credit after he'd seen Gene Fisher, he was quick to take action. Gene Fisher knew the deep trouble he was in.[39] This guy was a multi-millionaire and he ended up as a $160,000 a year salesman in a dealership down there. So you can see why there was a certain amount of anger with the UK. These were good friends of ours who laid their lives on the line. Jim Randle has got an ego that hides under a "I'm a terribly, terribly humble man" mask. Ford fired him. Jim was not a realist, he lived in a little world all of his own.

What about the Series III? Were the improvements all illusion?

Not all. The car definitely did improve. I can't give you faults per thousand off the top of my head, but JD Power would still have the records.[40] It did improve, there's no question about that, but some things we never solved. For instance, the Borg Warner transmission. It was good for 30,000 miles, but after that you were living on borrowed time. There was no way we could have afforded to engineer a new one. We just didn't have the money for a new gear box. So we just handled that at the dealer level, and we did things which were technically illegal, but morally absolutely correct. We looked after the customer. The V12 had a rear bearings seal leak. At the time I was as naïve and uneducated as the rest of them on how to run an automobile business. We'd done some individually good things over here, but, as I learned to my cost, it was a different world with Ford. We didn't know that the crank wasn't straight. It waggled! Some of them would be straight, but the trouble was that you didn't know which ones would be straight. Bill Hayden was just what Jaguar needed. The whole company was complacent. They simply were not

[38] Mike Dale added in an e-mail of 7 August 2007 to the author: "The explosion in XJ-S sales came from the convertible, and it would have been sooner if Randle and Egan had listened to the US".

[39] Mike Dale added in an e-mail of 7 August 2007 to the author: "Gene Fisher said that the 5.5 million miles testing of the XJ40 had been accomplished by 5.5 million Englishmen driving one mile each. There certainly was enough testing to show the middle management that there were tremendous faults in the vehicle, but there was no real avenue to get them actioned, and, even if there had been, we did not have the engineering resources to fix them".

[40] The J D Power Company refused to allow the author access to these records. In an e-mail of 30 November 2006 to the Author, the J D Power Corporate Communications Department stated that "We do not have a publicly-available archive for the kind of information you are looking for regarding Jaguar". Consequently the J D Power data used in this thesis are the summaries published in various editions of *Automotive News*.

prepared to respond to the marketplace in a practical manner. I'd been fighting for cupholders, for instance, for fifteen years. Nick Scheele walked in there and said "No cupholders?" All of a sudden we had cupholders. Nick Scheele, in my opinion, was the best leader Jaguar ever had, and I include the owner of the original company. It was a total change in attitude and professionalism. Ford really were professionals. One of the great stories about Bill Hayden was that he walks into the Radford factory, and by now Bill had understood there's something wrong with the V12 change, and comes across this great big machine that's there for checking V12 cranks. So Bill walks around the thing, goes up to the guy who runs the place and says "How often is this used?" "Oh, 100% of them are checked". Well, he goes around all the management, right down to the factory floor, and as he got closer to the floor it was "well, we check 10%", "we check 5%", "well 1%". Everybody's getting a bit shifty, so he stopped work and got everybody around the machine. "Now", he said "you sons of bitches have all told me different stories. This machine runs on electricity and I want one of you to show me where you connect it to the electricity". Nobody knew! Bill just ripped into the company. Half the Board went. People like Bob Dover were just broken. XJ40? I told you what a lot of crap it was. When we look at the J D Power report in 1997 for the five years for the 1992 model year, which starts in July 1991, it was an average car in the US. Bill Hayden had to change the production line, he had to change the suppliers, he had to change the design. He got in there and brought discipline and process to that vehicle which nobody in the company before had had the ability to do. It's interesting that you've got people like Mike Beasley who learned a lot from Bill Hayden in a short space of time under heavy pressure, and survived. Half of the others didn't. Going back, John really worked hard at healing the rift between North America and the UK, and he did it by putting me on the product committee, I was on the styling committee. He really did make an effort.

Did you have any input into the design of the XJ40?

In the sense of going to England and arguing over trim, and that sort of thing, then yes, quite a lot. John gave us more freedom than anyone one had before. Of course, Jim Randle didn't react very well to that; he regarded it as his territory. The interior of the XJ40 that Jim Randle had designed was so awful just to look at that we insisted upon a clinic here in the US, and at the same time got to dress up an interior along the lines of the Vanden Plas which had started off as a Series III. The critique of the base model was so bad that it was quite clear that the car was unsaleable. It really was that bad. The feedback on the interior of the Vanden Plas model said that if we did some things to it then it would be OK. Jim, this was in a product meeting, was appalled by the fact that the profitability was tremendous on the Vanden Plas on the Series III, because if you've got a base model that is really hot, there are people who will pay for the top twenty per cent of the line, they don't really care what it cost. We were charging about four times what it cost. This offended Jim who said it was selling Jaguar's soul, and that kind of thing. I said, "Jim you just don't understand about the value of things". Marketing is all about getting value out of the market place, about getting Dollars. He was really offended about that sort of thing. He thought of himself as a purist. He had a tremendous opinion of himself. I saw a piece in a magazine a few years ago that said "The XJ40 – the car that saved Jaguar" on the front cover. I looked inside, and there was a big picture of Jim.

They'd gone to Jim, and Jim had told them what a wonderful car it was. But it was a heap of crap! It bankrupted us!

Were there any particularly big problems that you had?

We had three recalls on the Series III V12 in 1985. When we put the fuel injection systems in, Jim took something that had five pounds [psi] fuel pressure and took it up to thirty pounds, and they did it all with hand clamps. We had all these joints with jubilee clips around them and the vibration would cause leaks, and the fuel would pull in between two of these. Sooner or later there would be something that would set the fuel off. Of course the person going down the road would see tons of smoke, "Oh my God!", and put the brakes on. Of course, by the time they'd got out the fuel was turned off, so you pulled the lever to open the hood and there was overwhelming smoke but no flame. They became known as "UTEs", for "Underhood Thermal Events". There were two or three recalls while they [Jaguar engineering] tried to fix it all with the hose clamps. In the end they had to bolt it together like everybody else does it. You can't really, if you don't have thirty or forty hose clamps, run thirty pounds pressure. We went through a period when fires in the V12s were not a daily occurrence, but a frequent enough occurrence. But we didn't have a single lawsuit because we handled it so fast. Here was another case where the UK naivety in the US market was stunning. There was fire, the guy was suing us, he had a non-standard radio telephone in his car, and the fire was traced to some sort of short with that. They [Jaguar in UK] wanted to fight it, and it took a real fight to persuade them it would be really stupid. You have to understand that in the US you had a management that was long in the tooth. We'd been kicked by BL. You had to be quick on your feet. The Attorney General in Florida told us in the 1980s that we had more lemon law[41] cases than any other single franchise in the US. However, he told us that we had the best record in the industry because not one of them had ever come to a law suit. We got so good at handling bad customers. We had an organisation here that really knew how to handle crap.[42]

Why did very little of the problems with the XJ40 get out into the media? There was nothing about it in the UK.

Well, the UK press was so pro-British that they were not going to be anti Jaguar. We had around 270 Jaguar dealers in 1980 when MG/Triumph went under. Some of them were only selling one car a month. They couldn't handle a customer even if they wanted to. They didn't have the money. We were quite convinced that we had to have profitable

[41] "Lemon" in this context is the term in the USA referring to something, especially a manufactured good, that is defective or imperfect. In many US states "lemon law" legislation defines the maximum number of times a car manufacturer or dealer may attempt to fix a significant problem before the customer can demand a full refund, or another vehicle of equal value.

[42] Mike Dale added in an e-mail of 7 August 2007 to the author: "Whoever thought up the name HE [for 'High Efficiency'] XJ-S was nuts! Whoever thought we could get 20mpg out of a 5.3litre 12 cylinder motor was also nuts! We didn't even explain what it meant to the dealers in the presentation because they would have burst out laughing. The AJ6 engine was awful until we got to the 4litre. It was rough and didn't develop much torque. We simply refused to take it until it became a good Jaguar engine, which in the end it did".

dealerships and the only smart way of doing it was to reduce the numbers.[43] England had never sent us more than half the cars it had produced in the budget. BL budgets were like 130,000 cars a year and sell 65,000. We were quite used to handling quite incredible strike situations and changes in volumes coming through. So what we did was to say we're just going to shrink the dealer body to what we think the factory can build. Our view was that the factory could not build more than 30,000 cars [per annum] for the US, and they didn't.[44] So we set up the dealer body based at around 20,000 cars, the idea being that there would be fluctuations up and down, and a dealer body that was running at around 20,000 cars wouldn't go bankrupt if we hit hard times. We were very suspicious of the UK and we just didn't think they could sustain what they were doing. At first there was so much stuff in Automotive News in 1980 that we were going bankrupt and that we were finished that quite a lot of the dealers panicked, and so we just encouraged dealers to leave. So by 1984 we'd actually got them down to about 180 dealers without spending a cent. But what we really wanted to do was get it down to about 120. To get rid of the next 30 or 40 was probably one of the more skilful things we did here. Our law firm said it was impossible. It led to a very difficult confrontation between me and the lawyers. What happened was that I got agreement to do a study, to spend $100,000 to see if there was some way to get around the law by creating new law. The new law would be based upon it being for consumers because it was going to increase competition in the luxury car market by making Jaguar strong, and in the ten years that followed the law courts bought that in a big way. In fact, I fought my last law suit on it in 1999 against a dreadful Cadillac dealer in Iowa. We won, and it was taken all the way to the Supreme Court and we won there too. But nobody would believe this at the start.

We got Dave Power to do a study of all the Mercedes dealers. In Los Angeles, for example, the Mercedes dealers were selling 500 cars a year, we were selling 100. So what said "Okay, we'll take two-thirds of the dealers out". Graham was against this, but John, happily, supported the whole thing. What we did with the dealers was enormously important. We'd come to the conclusion that we could make them an offer that we could pay for completely in eighteen months if we were right about our prediction re sales etc, and we would be really roaring ahead after that. In fact, in turned out far better than we ever dreamed. We won, or negotiated, all our cases. But, it took about eight years. The way we had got there was that we worked out, by looking at dealer statements etc, what would be the amount of money where they would be 50/50, ie. they wouldn't know if they should take it or not. We knew that politically we would have to move fast. We got the Dealer Council together in Washington, and said to them on the first day "Look, this is the problem. Let's not kid ourselves, unless you guys make five, six, seven per cent on sales then forget it, you're going bankrupt, and we're going bankrupt as well. The only

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[43] Mike Dale elaborated in an e-mail of 23 July 2007 to the author: "I became Sales and Marketing VP for all the BL marques in the US in the early 1970s, and set about rationalising the whole system. I think there were about 1,250 BL dealers then in the US, and only one had all the marques. By the mid-1970s we were down to 450 dealers, and all but a few were full line dealers, and it was the second most profitable franchise in the US based on percentage return on sales. What can be said about the 1970s is that we learned how to do something that nobody else in the US has managed to do, and how to make money from it".

[44] The maximum number of Jaguar retail sales in a single year in the US during the Egan years was 24,464 units, achieved in 1986 (as shown in Table 4.2 in the main text).

way we're going to make this work is by making you guys profitable. But there's a snag, we can't make enough cars to do it even if we could find anybody to buy them". Nobody would buy them at that time anyway. We said "Look, we're got to work out a deal with you which any one of you will take, and you'll stand up in front of Automotive News and say 'I'll take the deal'". We were not very smart building cars, but we were very streetwise, and we'd been working on this for weeks. The second day the Dealer Council came up with this deal. We immediately took the top people of the Dealer Council, chucked them into three cars and went straight across to the NADA and explained it to the NADA, and then went straight across to the Automobile Importers and explained it to them. So we'd got the Dealer Council, and the two dealer representatives in the US all saying "This is a good deal". The following morning, starting at dawn, we told one third of the dealers "you're staying", we told another third of them "you're staying, but you're going have to move because you're in the wrong place" because we'd done this computer exercise showing that we'd have to move all the dealers around. The third lot we told "you're going". Automotive News went nuts over the whole thing. But gradually the dust began to settle. It took about eight years to get through the whole thing. It cost us millions.

We ran out of money in the end in Los Angeles. We couldn't crack LA. So we had the idea of getting the dealers to pay for it, because the guys who were staying could see the grosses were going up, the sales were going up. The guys who'd agreed to go out in twelve months' time, because part of the negotiation was that instead of going today they'd go in twelve months' time, sold every car they could, so the sales started going up. So what happened then was we got all the dealers together who were staying and told them "We're going to take $500 a car off you". They said "Well how long for?" "Until we've finished the law suit and until we've finished paying off the dealers". Our lawyer had told us that the one thing we couldn't do was ask their agreement. If we did that we'd get done for conspiracy, and that would have been treble charges. He told us that what we had to do was provoke someone in the audience into getting angry with you and saying "Mike, what happens if we don't agree with this?" because we had to be on record saying "It doesn't matter if you agree or not, this is what we're doing". Finally I did get one to get mad enough to ask that. There was an enormous law suit later on challenging us for conspiracy, which we won. If our lawyer hadn't got us to do that we'd have lost the law suit, and it would have meant a lot of money.

The average dealer gross was $1,500 a car when we started this in 1980. Peanuts! By the time we'd gone to 1985 or so it was $6,500. So you can see what had happened to the profitability of the dealers. Some of the dealers were selling eight or nine times as many cars, and at the same time they'd more than quadrupled the profit per car. The money was absolutely pouring out of the dealers. Which meant of course that from our point of view we had enormous muscle with the quality. We were able to mask the quality. The answer to why people didn't know about it is that there was this tremendous agreement between ourselves and the dealers, and the District Service Managers[45], for instance, to fix the customer, even if he's outside warranty. But the problems with the XJ40 were just overwhelming.

[45] The number of District Service Managers varied between twelve and twenty, with assistants appointed at various times to help them on purely technical matters (e-mail on 17 September 2007 from Mike Dale to the author).

But the problems with the XJ40 didn't get a great deal of publicity?

No, but it made my job in the 1990s incredibly difficult.

How did it get out that the XJ40 was awful? Was it word of mouth?

Absolutely. We were cocktail party chatter. But because in 1980 we sold only 3,500 or so cars[46], something like only 0.8% of the luxury car market, nobody [customers] had any real experience. Then all of a sudden our market penetration explodes and we're selling almost as many XJ40s as they're selling Mercedes 300Es. Now, when we were selling 20,000 of these XJ40s, in the cocktail party circuit it was no longer legends it was "You should see how they've screwed me!" What we had done was poison the market. By the time we got to 1991 something like 85% of the luxury car market said they wouldn't even go into our showrooms because of our quality reputation. It was why we did the big lease programme, because nobody'd buy a car. We were really heading to extinction then. This had all come from us being too successful in selling lousy cars in the 1980s.

Did the dealers actually make profits from warranty costs?

In a court of law I'd have to say that I couldn't say because I don't have direct knowledge. But Jake Weidinger, our dealer on Long Island, who was our top dealer, at one time was selling 1,000 cars a year, had twenty-four mechanics in three locations, he had so much work going on. As we started to fix the cars in the 1990s he went down to eight mechanics. The dealers complained bitterly about the loss of service profit.[47] Nobody who had a Jaguar really went to the dealer after the warranty was up. They'd go to their local guy who was much cheaper. Well, you have to say to yourself "Were they making money?" Of course they were making money from warranties, but I've no way of proving it. But in such a screwed-up world as BL that wasn't the point. You could get dealers, like Jake Weidinger, who really cared about their customers, and we had lots of them, thankfully, but you knew you had somebody in the UK who was completely incapable of actually responding to the marketplace. Things like that weren't only forgiven they were actually encouraged. The company just didn't have the resources, but neither did we, from John downwards, understand that we didn't have them because none of us had ever been in a car company before, not a real one anyway. Yes, we'd been in the automobile business. Wayne Booker, who we reported to in Ford in the 1990s, told me when I retired that in the early 1990s the only thing that saved Jaguar was the relationship I had with the dealers. But that relationship was built up over decades of being brutally honest with the dealers. When XJ40, for instance, really ran into its troubles, John got his people to organise a whole package of thirty or forty fixes which we put into boxes and I went round all the dealers and said "Look, you know what a screw-up we've got, now we've got to dig ourselves out with the customers. We're going

[46] Jaguar's US retail sales in 1980 totalled 3,029 cars (as shown in Table 4.1 in the main text).

[47] Mike Dale added in an e-mail of 7 August 2007 to the author: "Warranty costs have a little discussed aspect from a financial point of view. A fault that can be cured on the production line in an hour only cost the British hourly wage. Maybe $15 at the time. The same hour to fix the same warranty problem in San Francisco would cost $90!"

to have to bring every single car back in, we've got to handle this thing right, we've got to put the car right". We had a very open relationship with the dealers. Martin Bennett, an Englishman who is a dealer in Nashville, didn't have much time for John. He called him "John Ego". I'm afraid it was all about John in the end. If John could have controlled his ego it would have been something else, but of course when he met Bill Hayden it was oil and water!

How much of that was down to David Boole, because he's variously been described as Egan's Svengali?

Oh he was! But when David died, John was too busy to go to the funeral! David Boole, believe you me, dug John Egan out again and again. David and I had our differences, but we always got on very well. I always liked David enormously. He was a man of principle, and when he believed something you could rely on him, and there weren't many on that Board that you could. In fact, Mike Beasley was the only other one. But David Boole made John Egan in the press, there's no doubt about that. David had a wonderful touch with the UK press, and came over very well in America because he was that sort of diffident Englishman that the Yanks like.

Why did you oppose the deal to buy Land Rover?

That's very simple. I didn't believe that we had the managerial ability to handle it, and what happened over the next twelve months showed that to be the case. I'd had experience of Land Rover. My first Jaguar responsibility was in 1970 as VP Sales over here. At the time I was doing MG, Austin etc. I knew Land Rover was a can of worms. It was even a worst can of worms than Jaguar was at that time. Technically, looking back of course, it would have been a neat thing from Ford's point of view. The smart thing of course would have been to have bought Land Rover and immediately sell the company. The company only just got sold in time. If indeed we had lasted another twelve months, either we would have gone bankrupt, or we could have been bought for a lot less money because the sales collapsed The 1990 model was the last hurrah. What we did with the 1990 model was to sell the dealers on reducing their margin by 2%, from 20% to 18%, and at the same time talk the Board into putting a whole bunch of things on the car that made it more competitive, upgrading it etc, and holding the price. So all of a sudden the dealers saw us fighting back, because Lexus was launched at the same time. That lasted twelve months because the car wasn't any better than the 1989 model. If we had bought Land Rover then it might have been a good thing, but it might have pulled the house down.

How much impact did the Wall Street crash in 1987 have?

I don't recall it having much effect at all. In fact, Ed McCauley had a theory that when Wall Street went down our sales went up. The Crash had no effect at all. The things that made the sales grow were: the dealership package, which was absolutely key to the whole thing; the £/$ relationship; the enthusiasm that John had set off which really made us believe, and he really was trying to change things from a quality point of view; mass

media advertising, and we had the best ten years of advertising that we'd done consistently.

Who did you regard as being your competitors?

In the 1980s it was Mercedes Benz. The Japanese weren't there. BMW sales were mainly 3 Series, perhaps 60%-70%, probably more, so they weren't in our price bracket, other than the 7 Series. Not Porsche: they sold sports cars, and we didn't sell sports cars.

Did the Japanese pose a threat to you in the 1980s?

We saw it as being Armageddon. We'd had experience of them. I'd been the factory rep in Latin America in the early 1960s, and you could see already what was happening. We knew just how good the Lexus was, and that we'd be in big trouble.[48]

Didn't John Egan, certainly in 1986, and possibly in 1987, refuse to believe that the Japanese could be a threat to Jaguar?

Neither did David Boole. That was one of the things that David and I heatedly disagreed on. David just thought that we were like a Swiss watch. You could make a $10 watch, but Swiss watches, like Jaguars, would go on untouched. Roger Putnam was very lofty about the whole thing. The reason was that they lived a protected life. They lived on an island, quite insular. They were much more like Europe than they were like the US. The cultural differences between the US and England are far greater than those between Germany and England. And, of course, you've got the spread across the US as well. There were many heated arguments about that, and I was accused by John of being defeatist, and all sorts of things. John and I had some real set-tos.[49]

What did you think of Egan as a manager?

As a manager John was a dead loss, and I say that with hindsight. But compared with anything within BL, he was a genius. The level of incompetence at the top in BL was absolutely astonishing. And yet, even within BL there were pools of competence, really great people. You look at Mike Beasley. The crap that Mike turned out in 1980! In the end Mike Beasley's crew would be given this bloody awful place in the north of England[50] and turned that factory around. Mike Beasley, properly led, and given the resources etc, didn't turn out just good but did an outstanding job. If he hadn't, he'd never have survived Bill Hayden. Nobody survived Bill Hayden unless they performed. Leadership demands ego, but controlling your ego is what matters. John couldn't control

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[48] Whilst this statement might be regarded as having been made with the benefit of hindsight, Dugdale relates how Dale in a speech given in October 1988 warned about the entry of the Japanese, Dale being quoted as predicting that "The Japanese are going to come in here and reinvent the luxury car market". (Dugale, John. *Jaguar in America.* (Otego, New York, 1993) p258).

[49] In an e-mail of 9 May 2008 to the author, Mike Dale pointed out that: "Lexus now outsells not only Jaguar but even the mighty Lincoln Mercury".

[50] Ford's Halewood plant, turned over to Jaguar assembly following the Ford acquisition of Jaguar.

his ego. He absolutely deluded himself.[51] There is no question but that he believed he could turn Jaguar into another BMW. I wrote the Fortune article at the request of the magazine.[52] The editor had been in the audience at a talk I gave. He said afterwards that if I wrote it he'd print it. But I was afterwards told that John hadn't liked it and I was not to do any more writing of that sort.

Didn't Egan have a reputation as a great motivator?

John a great motivator? God bless David Boole! If John called me right now and said "Would you join me in ...?" I don't care what the fee might be, the answer's No! If Bill Hayden or Nick Scheele called me I'd say "What time do you want me?" I have never in my life felt so appreciated as when working for the Ford Motor Company.
At Jaguar a bonus system was brought in. It was 50% of our salary. The first year it was brought in we blew the budget out of the water by tens of millions of dollars of profit, but John only paid a 35% bonus. I remember Ed McCauley coming to me and saying "I've got a cheque for $100,000 here. It's more money than I've ever been paid in my life but I'm so pissed off".
During the 1980s John got suddenly fascinated by Deming. But it was always a surface thing; John had read the flyleaf and understood everything.

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[51] Mike Dale added in an e-mail of 7 August 2007 to the author: "It became quite normal for John to adopt anything he heard as his own invention. At the dinner for the launch of the XJ40 in his speech he reminded dealers of what he had said to get them this far, and dealer after dealer came up to me afterwards and pointed out that John had never said any of these things. They were all stolen from previous speeches he had heard me make. I'm sure all his management had similar experiences. John was simply living in a world he had invented and now believed. Having said all this, you must remember that it was John who energized Jaguar in a way no one at BL was capable of doing, and he had the courage to take the company away from BL. For a time he was an excellent leader but within a couple of years he came to believe in the press clippings and thought himself omnipotent".

[52] The *Fortune* article attributes the turning point in US dealers' attitudes towards Jaguar as being their visit to Browns lane in June 1981, and in particular the final dinner at which the speech by Dale fired up the dealers, with them shouting "9,000" as the target volume sales for the US in 1982, at which point the band of the Royal Marines entered the room playing "America the Beautiful". Wood (*Wheels of Misfortune: The Rise and Fall of the British Motor Industry* (London, 1988) pp232-3) presents a slightly different picture, citing Egan as recounting how he gave the dramatic speech and signalling the band of the Grenadier Guards to enter the room. After reading Egan's account, Dale in an e-mail to the author of 7 August 2007 stated: "The Fortune version of what happened in June of '8l was stringently fact checked and, as I was not one of their regular writers, they really went to town! The piece was reprinted by dealer demand and used as a sales piece with Fortune's blessing. It has never been challenged by anyone who was at that meeting from the US and I can give you many living witnesses who will tell you John's version is just make believe. He couldn't even get the band right! It was the Royal Marines that had been organised by Mike Jackling, my sales operations manager, through his brother Roger Jackling (now Sir Roger). All the speeches were over when I stood up to speak and the band, hidden behind the main doors, was primed to explode onto the scene the moment I said '9,000' three times and got the dealers to join in. It was all very dramatic but John had nothing to do with the management of it. One of the dealers teased me afterwards that he came to Stratford for Shakespeare but didn't expect to get it in the Hilton! The visit was not in the context that John put it [of further confidence-building]. It was a last gasp. Some dealers wouldn't even come on the trip".

On what did you base your market demand forecasts for the US?

At first they were guessed. In the first year John needed 4,000 cars, and even that was bloody difficult. I needed something to tell everyone that we weren't going bankrupt. I said to John, who wasn't then in charge, we had to deal with BL International, "Why don't we go TransAm[53] racing? We can win the TransAm with the XJ-S." We worked out it was going to cost about 500 cars to pay for the whole thing, so John wanted to do it. He was prepared to do anything. So, we set a target of 4,500. It was a bit difficult because the head of BL International said in the meeting we had: "Mike, you mustn't get carried away by your enthusiasm. That's a 50% increase". John went nuts. He said "Oh no, don't let our enthusiasm carry us away, let's just let the company go bust. Mike wants to do this that and the other, and if he thinks he can deliver the 500 then we should do it". And he bullied the guy into doing it. So, we had to go for 4,500, but we actually went sailing past it.[54] We did things in reverse. We had this tight relationship with the dealers. We went round them saying "What's it going to take for you to do this?" We had a tremendous feedback through the dealer system. The first numbers weren't that good, but then what we brought in was a back order situation where every month when we looked at the forecast forward we would have a very good idea of how many unfilled orders we'd got. So we started to have a measure here. As the unfilled orders grew, we knew what was taken off the production line. So what was happening was that what we were doing, the advertising, the PR, the motor racing, was creating a demand where we were watching a thermometer. We never kept up with it, and you could probably say that we missed some sales, but we probably couldn't run the production line fast enough to take care of it properly anyway. The Dealer Council one year said that for the following year "15,000, and you won't get an inch past that". We did 18,500! But we had other things. We would take polls with the dealers. Every sales review meeting I would have a review of all the things. We did know what the dealer grossage were in the last thirty days, so all of a sudden you started having a nice chart that says the dealer grosses were 3,500, then 3,800 this month: we've now got a month and a half unfilled orders, we can see the grosses going up. All of a sudden we've got an idea of forward demand. We can see how the dealers are taking money out of the marketplace. And you soon became that adept at judging what that meant six months' out. So, it didn't have some great market research behind it, but what it did have was a very careful every thirty day view of what was really happening in the marketplace. Because Mike Jackling and I had some experience of the retail business we had an instinctive feel about what was important in the marketplace. We understood when things were failing, when they were succeeding, which we started to built some simple numbers around. Those were the early days of computers.

[53] Sponsored by the Sports Car Club of America (SCCA) the TransAm championship was a series of races at different racing tracks across the US. It was intended primarily for modified versions of production models, and included the Chevrolet Corvette, Ford Mustang, and Porsche 911. Races ranged from 200 miles to 2,400, and ran from 2 hours to 24 hours. It was discontinued after the 2005 season. Jaguar won the series in 1977 and 1978 with the XJ-S, but then withdrew from the Series on cost grounds.

[54] Jaguar's US retail sales in 1981 were 4,695 cars, a year-on-year increase of 55% (as shown in Table 4.1 in the main text)

You've said a number of times that you had all these problems, but they never came to a court of law. How did you get away with it?

Dealer relationships! It was a question of facing up to the fact that you really had a problem. Most factories just blame the dealers, and the dealers give it to them back. We didn't do that. Our Dealer Council was quite blunt. We handled it on the basis that we're all making money, and what we've got to do is make sure that the customer is looked after. The dealers were people with whom we'd lived through the TR7 debacle. That had been launched with about fifteen engineering defects which the chief engineer for the TR7 said "we can't possibly fix them. We don't know how to fix them". We'd handled things like this so many times before that the company was extremely adept at handling crisis.

Coming back to warranties, John Edwards told me you were just paying people to shut up

True! Let's look at a specific example. The Borg-Warner transmission. You're living on borrowed time with 30,000 miles on it. So somebody comes to you and they've done 31,000 miles. They're out of warranty and they've owned the car for two years. They're faced with a bill for putting in a completely new transmission, which you know is going to go as well in another 30,000 miles. What are you going to do about that? One of the things we did in the beginning with the Series III, because we knew we had to improve the used car values so we could get leasing, was we invented this package. This was a used car programme whereby we bought in Series IIIs that had got three or four years on them and started at the top of the package and put in new shock absorbers, springs that had collapsed etc. We'd just work our way through the entire car to rebuild it. It cost us $700 or $800 a car.

Mike Beasley told me Jaguar had no analysis of warranty costs.

He was right about that. But we use this word warranty loosely. The warranty comes from one thing, the "out of warranty" was something else, and cost us many millions of Dollars. I'm not sure what good the analysis would have done us because some of the things that were wrong with the car we couldn't have afforded to fix. Looking back on it analytically, the company was finished really in 1983 or 1984. At that point did they ever have the opportunity to get the engineering resources that they needed? The money wasn't there. They couldn't get the engineering resources they needed. It would have meant tripling at least the size of the engineering force, and to bring them on stream and actually do anything in time. The XJ40 in the BL plan was supposed to be launched in 1983. Every year it got put off another year.

Was it components that was the problem because that should have been fairly easily fixed?

It would be if you could have gone to a world class supplier. But the people we were dealing with weren't. The people who did our air conditioning/climate control, some

French company, were learning as they went along. You couldn't go to world class suppliers with a tiny company like Jaguar. I said to Lucas once that the windscreen motors were inadequate, and they said "Yes, they are, but you won't pay for the ones we recommend". Lucas didn't know enough to stand up for themselves. They were in the same shape we were in. DENSO[55] came in in the 1990s and said "We won't put our equipment in unless you go through the following redesign of the car".

John Edwards told me that the XJ40 was a car that couldn't be built.

But then you have to ask what did Bill Hayden change? It wasn't just Jim Randle who decided on 4 May that he'd finished the car, lobbed it over the fence and Mike Beasley is landed with this unbuildable car. That is not the way that a modern car company works. You need sales and marketing, engineering, manufacturing, and quality and styling all working together. That is what Nick Scheele really honed to a fine point. He got all the people together once a month for a week in the UK and in that meeting there was everybody in that room who had to carry responsibility for it, whether it was finance, engineering, quality, or whatever. We were responsible. We had to come up with a rounded, financially acceptable quality driven solution. Nick Scheele was a leader and a manager in another class altogether. If John had been Nick Scheele he would have gone in there in 1980, he would have taken it [the company] private, he would have changed a lot of the management immediately, and would have sold it long before he got to XJ40. You could probably have got the same amount of money for it long before XJ40.
By the mid-1980s it was becoming very obvious to some of us that the company wasn't going to make it. One of the things I was somewhat unpopular for with John was when the Ford/GM thing came along made it known that I really wanted to work for a company like Ford. But John didn't think that way at all, and he would have done other things with the company. I remember John saying "Well, all those BL people were second-class businessmen, we're first class businessmen". He actually said that. Well, there must be some other class because the knowledge of the car business that the Ford people had was dazzling! In one meeting Bill Hayden said "There's no substitute for hard work – if there was Jaguar would have found it by now". David Boole really disliked Bill Hayden.

How did David Boole survive Bill Hayden?

David knew the UK press very well. But David must have gotten really beaten up by Bill Hayden because he would make the kind of statement that BL would make. You know, "Well, customer satisfaction is much easier to achieve when you sell lower-priced cars". I remember Bill saying "What data do you have to prove that?", and David was stumbling all over the place. Ford knew they had to keep the scenery, and David Boole was very much part of the scenery. When John ran the place there wasn't a single statistical process control chart in the factory. When I left there were 360 plus.

[55] Japanese automotive components manufacturer, with large European presence. Main products are engine management and exhaust emission systems, and starters and alternators.

Transcript of the interview with John Edwards on 29th November 2002

Other than John Egan and yourself, who were the main characters in the Jaguar story in the 1980s?

On the board at the time of the flotation there was John and myself, Ted Bond[56], Ray Horrocks[57], who we thought of as the enemy because he was BL Cars, Graham Whitehead, and Hamish Orr-Ewing who we got rid of within a year. It was exactly the right thing to do. Ted was a big City man. He could help me; that was the idea. The executive directors were me, John, and Graham Whitehead. But of the executive management, the next layer down, there was Mike Beasley who is now the Managing Director. Jim Randle is now a Professor at Birmingham University. Neil Johnson, the marketing guy, was Chairman of the RAC at one time; he didn't stay very long, Roger Putnum took over as Sales and Marketing Director straight away, and now Roger is Chairman of Ford of Britain. Ken Edwards has died. David Fielden[58] retired early in 1992. He was good on quality and stuff. Pat Audrain[59] retired at the same time: Ford had a sweep out. David Boole died in 1996. David and I were the ones who used to say that probably we were the only ones around John Egan that knew what was going on really. I supported the Ford take-over very much. That whole episode is a massive story in itself. In my view they've been an excellent steward of Jaguar Cars. They came in in 1990. They showed us their business plan. They wanted to create a new BMW. We had wanted to create another BMW in terms of a 3 Series, a 5 Series etc, but ours was more of a pipe-dream. Theirs was a proper plan, and they've done it: they've done exactly what they said they'd do. I didn't know we'd end up using Castle Bromwich to build the S-type, a 5 Series type car. I didn't know we'd use Halewood to do a small car, a 3 Series-type car, but that's what they've done. The plan was to do exactly what they said, and they've done it. Now, the numbers aren't so good. When I left in 1995 they'd just turned the company back into profit, and since then they've generated quite a lot of cash, particularly from the mid car, and they've done very well on the sports car, and they've done pretty well on the S-type car. The S-type has sold fairly well in the UK.

What was your background with Jaguar?

I joined in 1980, John Egan joined in 1980. I used to work with John in Massey Ferguson as well. The reason I got the job wasn't because at 31 I was the best finance director in the world. Probably there weren't many people queuing up for the job because it [Jaguar] was seemingly a loss maker. With Michael Edwardes chopping everything out left, right, and centre there weren't many people queuing up for the job. Michael Edwardes at that time had got a view that a lot of people after the Ryder Report had left British Leyland

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[56] Ted Bond. Finance Director of The Beecham Group, was appointed a non-executive director of Jaguar plc at the time of the flotation in 1984, serving in that capacity until the Ford takeover at the end of 1989.

[57] Ray Horrocks CBE. Chief Executive, BL Cars, and Chairman of Jaguar prior to the company's privatisation in 1984.

[58] David Fielden. Jaguar's Quality Director, and a member of the Executive Board.

[59] Pat Audrain. Jaguar's Purchasing Director, and a member of the Executive Board.

because they were dissatisfied with the Ryder Report in 1977 and he had a view that he wanted to get his arms around the tree, to break the problematical management chokes. He also wanted to get good managers back in to run the place. John was listed as having been dissatisfied with the Ryder Report and he was targeted to come in and run Jaguar from Massey Fergusson. I was his financial controller at Massey Fergusson. He got the job in March and he asked me to go as his Finance Director. I said I would, but whilst I had a lot of experience as a financial controller I had no experience as a finance director. So I was inexperienced. But the rest of the team were all part of the JRT team, the Jaguar-Rover-Triumph part of British Leyland, and were all a bit dispirited. They'd all been told "Our aim is to put it all back, and separate the identity of Jaguar Cars" and John was the beacon. With all the doom and gloom and mushroom cloud around John knew where he was going. Where he was going was he'd got these four things. First he always had his halo. The halo of something. The "halo of demand" he used to call it. That is what would take us through. But when we started in 1980 we had no demand at all. When I did the first forecasting the losses forecast for the year were £5m or something, but we'd lost about £15m on a year to date basis and we were halfway through the year, and I said how are we going to get back with the volume we've got? Nobody knew. We didn't have a clue at this time. We didn't have a business plan, just wish lists. We had to dig in. But we had the four things that John used to get up and speak about. When I first heard this I thought it was magnificent, but what I've learnt about all his speeches is that they say the same thing all the time. First of all, get the quality right. Get the quality right because it was absolutely dire. We had the paint shop fiasco at Castle Bromwich. We could only paint in red, white, and yellow. Then we had to get productivity back. Productivity was quite discouraging. Castle Bromwich wasn't even part of the Jaguar operation, it was owned by Pressed Steel Fisher. It was a massive sprawling plant that did all the pressings for a lot of cars, and we just had one line in it. The paint shop was a fantastically expensive project but we just couldn't get through the paint process. We had to get the productivity right, we had to get the processes right, and we had to get the efficiency right. So, quality/reliability was the first thing, productivity was the next thing, and then we had to get market demand. John had got the vision. He knew he could get the US market right, he'd got that so clear in his mind. He'd got the market positions right. And then it was all part of the development of the market, getting separate distribution, splitting away from BL, identifying an identity.

So John in the years between 1980 and 1984 was absolutely head and shoulders above everybody else. He knew exactly what he was doing. Dynamic, energetic, a fantastic leader of men. People thought he walked on water because he was that good at that time. That first year we lost £20m. We recreated the accounts. 1981 was a year of two halves: in the first half of the year we were still losing money, but by the second half we'd got some of the efficiency thing sorted out, and we'd got the productivity, and we'd got a bit better quality. In particular, we'd re-launched the XJ-S in a nice little trim package, and by that time the US market had started to get a few. We'd got the old stocks out of the market place and it started going well. I remember that 1981 session because we'd had a big meeting about March time and we knew that things were getting better. We felt that even though we were losing money things were getting better. Demand was starting to pull through, the Americans were getting interested, and volumes we thought just needed a big push. Then there was this big thing with Ray Horrocks. He was still under a three-

line whip from Michael Edwardes. You know, "If you're not making any money, just chop it out, sack the lot". Edwardes had been given his terms by Maggie[60]: "Sort it out, I hate British Leyland". She hated Red Robbo[61], she hated all this stuff. Michael Edwardes was this pocket dynamite who was going to sort it. He was a big influence. He was good at it. He told us we had to get back to profit or we were gone, and that's 1981. But we had this big meeting with Ray Horrocks and we were talking about US volumes of 6,000 cars a year, and that was our budget. The year before we'd done 3,000 cars in the States. Ray Horrocks and Peter Rainier, the BL Controller, was saying "You'll never get 6,000, never". But we'd had the US dealers over, we'd taken them to Warwick Castle, we'd had the military bands there. So we thought we could do it. We argued and argued. John did a magnificent job. He said this is in the bag, and that was it. There was some talk of transferring the whole of the Jaguar range to Longbridge[62] and closing down Browns Lane but John did this magnificent presentation and they said "Okay, do it". It was so close. Nobody really knew that we were so close to the axe. On reflection we didn't sell 6,000 cars, we sold 5,000 cars,[63] but it was the catalyst. It started pushing things through. Instead of being a crusty old company selling 15,000 cars a year we started seeing volume well over that. We started pushing the mechanics through. At the same time that the volumes started to improve, the exchange rate moved on in our favour. So, from getting margins of minus £5,000 we were suddenly getting margins of plus £10,000. It was magic, it was absolutely fantastic. John couldn't do anything wrong at that point in time.

What actually pushed the consumer? Was it advertising?

No, we didn't really advertise at all. One thing was that John galvanised the dealer network. They thought he really was the new Iococca[64], and John believed this as well. The point is that John was fantastic during the early years, but then by 1987 he ran out of ideas basically as far as Jaguar was concerned. By the mid-1980s he started to believe his own bullshit, and that's when, in my view, things went a bit wrong, and he didn't know what to do. But during that period, the early 1980s, he was fantastic, and he galvanised the American dealers. The dealers started to believe in him, they started to believe that the quality was getting better. Before John came along they'd started to get angry. Most of the dealers were local businessmen who knew the people who they sold the cars to, and if the car broke down they'd get people beating them up, not literally, but they'd go out to a cocktail party or something and get moaned at. But by mid 1982 the word was getting round that the quality was better, and the dealers were starting to see the margins

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[60] "Maggie" the popular name for Mrs Margaret Thatcher, the Prime Minister.

[61] "Red Robbo" was the pejorative sobriquet given by the media to Derek Robinson, militant Union Convenor at BL's Longbridge plant, whose sacking resulted in industrial action, but which eventually improved industrial relations at BL. (Edwardes, Michael. *Back from the Brink. An Apocalyptic Experience* (London, 1983) pp118-133).

[62] Longbridge. The major BL car assembly plant, located in Birmingham.

[63] The actual US retail sales figure for 1981 was 4,695 cars, but US wholesales totalled 5,154 cars. In 1982 US retail sales totalled 10,349 cars, and US wholesales were 9,971 cars. (as shown in Table 4.1 in the main text).

[64] Lee Iococca, accredited with restoring the fortunes of the US Chrysler Corporation in the period after 1978 when he joined as Chief Executive, and was Chairman and CEO 1979 to 1992.

come through. They were getting the volume. If you sell a good car in the States at $30,000 a time you're getting good margins on it. The dealers did a lot of local advertising which we supported. John spent a lot of time in the States. He was like a god to the American dealers because from being cranky old little dealers they started making big bucks. I think we made more American Dollar millionaires in that period than anyone else. You know, their earnings went from nothing to a million Dollars [a year]. It was fantastic. So, we turned the corner in 1982. We moved from being the dog in 1980 when Unipart and Land Rover were the only two businesses that were going okay. We were a dog as far as BL Cars were concerned and Rover was an absolute no-hope (and is still no-hope but is still going!). Maggie had said to Michael Edwardes "I hate British Leyland, I hate it with a vengeance. I want you to privatise anything you can and the rest shut down". In 1980 Land Rover looked like the only thing that was going to work, but then they got into a bit of a mess, and we suddenly zoomed in to become the star, and it was all John. John is this man, this halo man. He walks on water, he does anything right.

He got the reputation of being very close to Maggie. Was that in fact the case?

He wasn't as close to Maggie as people thought. There were the three of us, and we always discussed what was going on. David [Boole] did all the PR stuff, the papers stuff. John was his own PR machine. Most Chief Execs come into you and say "God what appalling sales. I want a £10million advertising campaign!" John was his own advertising campaign. He walked the press, and the press started to believe in him. We started to get these fantastic articles. Therefore, all the publicity we were getting was free. It was all John Egan. He was actually, literally, a one-man band promoting everything, and obviously it was the time when a privatisation started getting talked about. Remember, it was a time when Maggie was looking for success stories. It was a time when employment was crashing. But we were getting more volumes through and we were starting to recruit a few more people. Norman Tebbit[65] got up on one programme on TV and said "Look, great success story - Jaguar Cars!" Of course, John had given him all the bullshit, although at that time it was actually genuine! It was actually fantastic progress, and we became to be the symbol of the only people at the start of that year who were re-employing people in manufacturing. And so he came on the good list as far as Maggie was concerned. He met her a few times. But the funny thing is that he wasn't <u>that</u> close to her, but the BL Board, heading towards this privatisation, thought he was, and he didn't argue with that.

Who gave the impetus to the privatisation?

Well, Maggie had said to Michael Edwardes "Look, privatise what you can, because otherwise... I hate them" It was like a red rag to a bull. She hated it. BL was a bit of a joke. The Two Ronnies[66] used to do a parody of working in a BL factory. But by this time we started to build up this momentum. In 1983 we could see the volumes coming, with

[65] Norman Tebbit served in the Thatcher cabinet as Secretary of State for Employment 1981-83, and Secretary of State for Trade and Industry 1983-85.

[66] "The Two Ronnies" was a highly popular television comedy show starring Ronnie Barker and Ronnie Corbett.

16,000 in the States.[67] At the end of 1981 we broke even. In 1982 we started to make quite a lot of money, and in 1983 we made a sackful because the exchange rate was piling in at the same time and we moved US volume to 15,000 from 2,500 in 1980. This was heroic stuff. We were very pragmatic, quite young but we all thought Bloody Hell! Anyway, early 1983, General Motors came on the scene: "Could I buy Jaguar?" BMW came on the scene: "Could I buy Jaguar?" And John said "No! You can buy it, but I will not be the management. You can buy the company, but you can't buy the management". And they were quite shocked. Someone making 10,000/20,000 cars a year saying to the Chairman of General Motors that you can buy the company but you won't buy me! By this time everyone believed that John Egan did everything at Jaguar. He made all the cars, he designed them all, he sold them all, he made the tea. He did everything! So they wouldn't take the risk on it, but they were still interested, as was Ford in a way at the time but they weren't quite sure how to handle it. This was the time when we were going through the boom of 1983 and 1984. Demand was pulling things through. We started on building a bigger, better network supply. I think this was one of the strongest parts of the thing; the network development all the way around Europe was working a treat. The halo of demand pulled us through. But the finances were massively helped by the Dollar. The Dollar was getting stronger and stronger. At one time we were going for parity! So, they said, the right candidate for privatisation is Jaguar.
So we stormed into 1984, and again General Motors, in early 1984, came back on the scene, and John said the same thing: "You can't buy the management" and they said "Fair enough" and trampled off. So BL Cars didn't know what to do really because it was a nice easy deal with General Motors, but John just used to say "No, we won't do it. We want privatisation. I've got Maggie's ear", which I think he had, but not quite as much as everybody else thought he had, and he played on it. So that's how privatisation came. And it was good for Maggie at the time because, remember, it was right in the middle of the miners' strike. There'd been no successful privatisations for a couple of years. There'd been no real success stories, and then suddenly we were it. And it was fantastic! The issue was massively oversubscribed. Everybody thought it was the best thing since sliced bread, and at a 165p share price it was! I remember talking to Bob Barber[68] very early on and I said, "Why did you support it so much?" and he said "Well if you don't do well one of the big guys will come along and pick you up". By 1985 we'd started hedging foreign exchange. I'd got the exchange hedged at about $1.20 through to 1987, which was a guaranteed £50million a year. It tipped over in March 1985. March 1985 was about the best exchange rate ever, and in the month of March I was trying to stop it booking more than £20million profit for the month. It was more to do with the exchange rate method.[69] I thought this is a fantastic company where I'm working. It was all fantastic. Half the profit was coming from the exchange rate compared to the current exchange rate. We'd got all the forward hedging in. We'd decided we could do anything. We concentrated on the dealers; we concentrated on nice dealer showrooms; proper

[67] Jaguar US retail sales in 1983 were 15,815 units (as shown in Table 4.2 in the main text).
[68] Investment Analyst at stockbrokers Phillips and Drew.
[69] In a telephone conversation on 5 December 2006 with the author, John Edwards added: "Of the 1985/86 profits of £120million and 1987 profits of £94million, at least half was currency. For most of that period we had a $1billion hedge all the time. Our best month ever was March 1985 – we made £25million currency profit that month".

distribution; we'd got the network right. The magic seemed to work. They were lovely cars, and they were good enough. Quality and reliability was right, and by the time we were there the old Series III and XJ-S were reasonable quality, not 1999 or 2000 quality, but fantastic compared to where we were before. So, we were starting to get the quality under reasonable control, not fantastic, but reasonable control, and everything we touched seemed to work. We started to believe our own bullshit in the mid-1980s. You know, we can't do anything wrong. But I think anything we did up to about 1987 we were covered by the exchange rate hedging. At that point the exchange rate was on the move. The exchange rate after that was an absolute disaster. We'd believed our own bullshit. We thought we were the best marketing people in the world, the best manufacturing people, the best engineers. We'd tested this car [the XJ40] around 24 hours a day, but we tried to do it all too quickly and that car was a dog. So, from thinking we could walk on water we were brought right down to total reality. We'd taken a risk on 80% of our volumes. The car was well received by the motoring press, and this is what fooled me, because we virtually had no good cars when we tried to do the engineering stuff and manufacturing stuff in volume. So, the warranty starts to get big. But we were so shocked by it all. John really shook his head, but give him his due he stuck it, he dug in and said "I'm going to fix this problem", but it took, in my view, until the 1990 model year before we got somewhere back to the quality we had with the Series III. And by the 1990 model year that car was a good car again.

What were warranties running at?

They were massive in 1980; that was one of the problems, running at over 8% at one time, but we got it well down on that before 1985 on the Series III.[70] On the new car [the XJ40] it got out of control. We were paying people off to keep quiet in my view.[71] The car was a dog. But we still had this veneer outside. People still thought we were walking on water, but inside there were all these things going on. I think it was at this time that John lost his way a bit. He was fantastic during the early 1980s, but he then started to make too much of himself. He was voted the most popular businessman in the UK after Hanson.[72] We were getting fame and worldwide recognition beyond our abilities, and beyond what we really deserved, but it was there. John thought he could do anything. This was really a chap walking on water! Then he really grew up in 1987 with a massive bang. He got stuck in, he got the engineering sorted, he started working out with Jim Randle.[73] But we were really, really, struggling. John dug in very deeply. By 1988 we'd

[70] John Edwards in an e-mail to the author on 16 July 2007 provided the actual warranty costs for each of the years 1980 to 1990 inclusive. (as shown in Figure 7.1 and in Table 8.1 in the main text).

[71] In a telephone conversation with the author on 5 December 2006, John Edwards re-emphasised this point: "Jaguar was certainly over-generous in its warranty payments. It made sure no one would shout and scream too much".

[72] Lord Hanson. Chairman, Hanson Trust PLC.

[73] In a telephone conversation on 5 December 2006 with the author, John Edwards added: "Jim Randle called the XJ220 his Saturday morning project. We agreed he could have a limited amount of money to play around with it, but we told him to get on with the XJ41. Jim is a very clever man, but he's not much of a practical engineer. The XJ40 nearly broke the company, and nearly broke him. Jim was out of his depth, but we didn't realise it at the time".

had the Stockmarket crash, and the exchange rate starting working against us, but we still thought that US demand would keep going.
The XJ-S was still selling well, but it was getting a bit old in the tooth, and the Saloon was getting much better. So, by the 1990 model year the XJ40 was not too bad, so to give John his due he got stuck in and he got it item, item, item sorted out. He used the data extensively to satisfy customers. He was just searching for a management process. His confidence had been shaken. But he still had a lot of personal confidence, he wasn't short of that. And along came General Motors again, and then up came Ford at the beginning of 1988. We had this meeting with Don Petersen[74] and Alex Trotman[75], and John was aggressive with them. "I hate the Ford Motor Company, you can't make cars like we do". This was the Chairman of the Ford Motor Company he was talking to! I was kicking him under the table. Shut up! There was no need to be rude. He said "I'm not going to be part of the Ford Motor Company, I'm going to be on my own", and I said, "Well you can be courteous". Anyway, that was it. He actually showed them off.
Then we got to 1989. We knew we had to get some sort of special relationship going. We were protected by the special share so we knew no one could be buying us. General Motors came back on the scene and we started to have these discussions, and all this time Ford didn't know what was going on. John wanted to work with General Motors because their decentralised management would be better for him. We started to work out these deals. In 1989 John was favouring this relationship whereby they had, say, 40% of the shares but the rest was kept on the Stock Exchange. I was doing the negotiation in mid-1989, but talk about nasty aggressive meetings! At that time the share price was about 400p and it should have gone down. We were saying we were going to break-even in 1989. But the share price went up to 600p.
Ford came back on the scene and John said "No!" They'd picked up that we were talking to General Motors. So we went through all June, July, and August. There was tiny Jaguar Cars talking to all these bloody great people who wanted to buy us. And all this time our share price was going up, not because we were doing anything but because people thought there was activity there. Ford knew what was going on, but John said "No I'm not having anything to do with Ford", and we got to the stage where Ford stepped in, bought the shares, but John said "No, No, still don't want it". So he went down to this meeting with General Motors saying "You've got to step in, and buy the equivalent of them" But they weren't so keen about getting into a dog fight with Ford about the share price. John was still trying to keep them there, because that was his favoured deal, all the way through October. In the end I said to John "You've just got to sit down with the Ford people because (a) I can't see why you're so vehement and (b) the General Motors deal isn't going to work. It's not going to work from a management point of view, from a product point of view, and is certainly not going to work from a shareholders point of view because by giving them that 40% and with the joint venture setup you're giving them the company. You're not maximising shareholder value". It was the closest I got to having a row with him because he and I were very close. We spent a lot of time together: travelling together, and he only lived around the corner from me. I said "This is absolutely stupid" and in the end he cracked. I phoned John Grant and I said "We're willing to talk". He said "Are you sure, because it's very important". I said "We're sure!"

[74] Don Petersen was Chairman and Chief Executive Officer, Ford Motor Company, 1985 to 1990.
[75] Alex Trotman was Chairman of Ford of Europe at this point.

and we agreed to meet on the Monday. We had a few days' meetings and we agreed the deal. But the reason for John Grant saying that it was so important is that they were just about to sign the deal to buy Saab. So, what happened is that they went into an absolute panic after my phone call because the board of Ford had authorised the deal to buy Saab or Jaguar. But they'd said that Jaguar won't happen so let's go for Saab. So they covered it up. They flew out to Sweden. They were going to have dinner with the Saab people the night before signing the deal. Bruce Blythe and his team were just getting ready to go to dinner when the got the phone call. I didn't know this was going on. We met with Ford on the Monday morning. That's how it was.

Did you know in advance that the government were going to pull the plug on the golden share?

No. We were absolutely shocked. Nick Ridley[76] phoned up John on the Tuesday I think it was and said "I'm going to suspend the Golden Share". I never got to the bottom of it. I think Maggie did some kind of deal. It was something to do with the development of a plant, or not closing one down. There was some kind of deal because Maggie was in Tokyo on the television when she said it was the right thing to do. We had no idea it was going to happen. I talked to Bruce Blythe about it and he told me they were as shocked as we were. I believe him, but I'm not sure if he knew what happened between the Chairman of Ford and Maggie Thatcher.

Was Maggie disillusioned with Jaguar? The success story that was no longer a success story?

It was the thought that it was teetering on the edge, therefore let's get it put down!

What about Land Rover?

It was 1986. Lord Young was at the DTI. George Simpson[77] came on. They needed help. At the time we were really struggling. I said we had to do it, but at the time we were in the biggest crisis of our lives. So we actually turned the opportunity down. John ignored it because he was so absorbed in this XJ40 launch issue. He said we didn't have the management to do it. We sat down in Executive Management Committee and voted on it, and it was about 7/4 not to do it. We were just so thin on the surface. So that's how it happened.

Why didn't you buy in the management?

We tried to. We were desperate over Jim Randle. We were so disillusioned. First we tried to buy Richard Parry-Jones[78] who was in the US at the time. Then we tried to get Tom

[76] Nicolas Ridley was Secretary of State for Trade and Industry in the Thatcher Government from 1989 to 1990.

[77] George Simpson was Chief Executive Rover Group at this time.

[78] Richard Parry-Jones: in 1985 he was Executive Engineer, Ford Technological Research in Europe, and in 1988 became director of Vehicle Concepts at Ford in the USA.

Walkinshaw.[79] We were trying to get someone to run the Jaguar Engineering operation. We were desperate. We were trying to buy in other things. We knew everything about sales and marketing. We knew most things about manufacturing, or we could fix it. We thought we had an engineering set-up, but we hadn't.

Was the problem with the XJ40 a manufacturing problem?

It was a wonderfully engineered car that couldn't be built. It was not developed enough from a manufacturing point of view.

The company Jaguar was most frequently compared with because of its size and market position was Porsche.

We used to compare ourselves with Mercedes and BMW, but Porsche was the same volumes.[80]

Did you ever think of doing a Rights Issue?

We did but it was too late. It was part of the General Motors thing to do a Rights Issue. We were going to have a Rights Issue and let them buy the shares. The General Motors deal would have been a disaster for the shareholders, but I think John Egan has forgotten that. I liked John a lot, but he did get lost.

I had the impression that John Egan regarded himself as the true successor to Sir William Lyons

Lyons treated him like the son he didn't have.[81] He died in 1985. He loved John. John used to go out and show him cars at his home. Yeah, yeah, it was that type of relationship. It was spiritual almost.

Did John Egan regard Jaguar as his personal fiefdom?

He tried to get quite a big stake in the privatisation. John's view, and to a great extent I agree with him, was that during the period 1980-84 he picked up Jaguar when Michael Edwardes would have chopped it down. John picked it up and made something that was worth nothing, or negative money, worth £300million.[82] A lot of money. He was

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[79] Tom Walkinshaw. Head of TWR (Tom Walkinshaw Racing), and JaguarSport, the joint venture company established by Jaguar and the TWR Group in 1988 to manufacture the Jaguar XJ220.

[80] In a meeting with the author in October 1987, following the sharp falls on the world's stock exchanges, Edwards had opined that the fall in share prices would have little impact on Jaguar sales, unlike the sales of Porsche which he described as being a "Yuppie" car. (Author's contemporaneous notes).

[81] Lyons' only son was killed in a motoring accident in France in 1955. (Whyte, Andrew *Jaguar The definitive history of a great British car* (Wellingborough, 1985). p143).

[82] Jaguar market capitalisation at its flotation price of 165p per share was £297million.

embarrassed that he got a service contract which paid £56,000 a year[83], and he thought that was ridiculous. He'd created £300million from nothing, and he was paid £56,000 for doing so. And he was quite right. And we did in 1983 think about doing an MBO. But his view was that he should have had a big chunk of the equity because he created the wealth. I think John's case was real. He was paid peanuts for creating £300million of wealth, and later on he sold it for £1.6billion. He's not a poor man by any means but he didn't get that much out of Jaguar. His view was that he single-handedly created all that wealth himself. I agree with him that he deserved a lot more than £56,000pa for doing it.

At the time of the float who appointed your advisors?

We had a big row about it. We weren't allowed our own bank. Hill Samuel was the merchant bank on behalf on BL. It ended up that Slaughter and May were BL's legal advisors. We had Clifford Chance. We weren't allowed to have our own financial advisor.

You kept Cazenove on as stockbrokers?

Yes we did, and appointed Morgan Grenfell as soon as we could. That's when George Magan cropped up.

Didn't your advisers - didn't Morgan Grenfell, didn't Cazenove - turn round and say "You really ought to be doing a rights, you really ought to be building up a war chest"?

The answer is probably yes, but we were told by George Magan that Orr-Ewing had all these great ideas of using the Jaguar brand name. I think he got the idea of having a massive rights issue. The problem was that while he was having these discussions with George Magan he hadn't told John Egan what he was doing, so we had a coup and we sacked him. And we did it with George Magan's help when Ray Horrocks was away on a trip to the Far East. We voted him out as Chairman. That was a good day. We sacked him. He even described himself as a second division Chairman. John Egan said "We don't want a fucking second division man, I want the best in the world! I'm not having a fucking second division Chairman". It was funny at the time because Hamish Orr-Ewing was Trotman's first boss at Ford. That was why he got the Chairman's job, because they thought he'd got some motor industry experience. John hated him. Talk about tension between the two! Anyway, we felt we were doing the right thing because it was reported he was having secret talks behind our back. John and I often talk about it. It was one of the best days of our lives. We couldn't sack him as a director, but we could vote him out as Chairman if we had a board majority, which we had. The next thing we did was to vote

[83] The Offer for Sale document (p36) reveals Egan had entered into a Service Agreement with Jaguar at an annual salary of £56,477. In 1985, Jaguar's first full year as a quoted company, Egan received emoluments of £172,959 and by the year-end had been awarded options over 245,812 shares under the Senior ExecutiveShare Option Scheme (Jaguar 1985 Annual Report and Accounts)

Mike Beasley and Ken Edwards as directors. But Orr-Ewing and Ray Horrocks were still directors.[84]

Hamish was imposed on you wasn't he? By whom?

By BL. They said John's too inexperienced. He hasn't got any City experience.

John becoming both Chairman and Chief Executive was really contrary to City informal guidelines, wasn't it?

It was, but at that time we couldn't do anything wrong, could we?

Jaguar had a pretty ropy time with industrial relations, didn't it?

I think one of the problems was the way the BL guys had been. They had to be tougher. John was on this mission for recovery and he still thought he was a man of the people. John used to sort of lecture them. John wasn't that tough on the issues. He couldn't understand why anyone wouldn't support him, because he was so good, and he was doing so well. Having said that you want to talk to Bob Ainsworth, one of the chief shop stewards at the time, who's now one of the Coventry MPs - I offered him a job in the finance dept, but he said "John, I'm far more ambitious than that". He swears by John. So, I don't know if he [Egan] did have a bad track record. He did a massive amount of good communications. Fantastic employee communications. We had a very successful employee share scheme. But industrial relations were dead hard. We didn't bang the drum about productivity as much as we should have done.

But you had a fair number of man-days lost on strikes?

Yes we did. We had the first strike in 1984. John couldn't believe how they could do this to him. We lost a few days but it worked out alright. But lets get a perspective. What did we achieve? By mid-1985 we had started to get a fantastic dealer network in the UK and USA. We raised the output. We'd got fantastic communications, although we ended up turning our back on it to some extent. We did a lot in terms of video-conferencing. John turned himself into a bit of a video pop star. We used to start early in the morning. We'd give them the video and then answer the questions, and go on all day. Five hundred a session, answering any questions anybody wanted. I think this was pretty radical.

[84] Horrocks and Orr-Ewing remained on the Board of Jaguar plc until April 1985. Jaguar's 1985 Annual Report and Accounts p18 notes their resignations from the Board, but there is no acknowledgment of, or appreciation shown for, the contribution either had made as directors. As noted earlier, Horrocks had been Chairman of Jaguar prior to its privatisation in 1984. However, in Jaguar's 1984 Annual Report and Accounts Egan's Chairman's Statement did conclude with the statement "Finally I would like to thank Hamish Orr-Ewing for his contribution as Chairman through the period following our privatisation".

Nobody else was doing this at the time.[85] We were talking to all the labour force in one day. In one day we were talking to eight thousand people. We'd answer any questions they wanted. There'd be a director there. We'd explain what we needed to do in terms of the exchange rate. And we used to have a lot of do's. In the development of the marque it was fantastic. This was John. He drove it all. In the early 1980s he made the company what it is. If it hadn't been for him it would have gone under. He personally saved the company. He purposefully privatised it, and he purposefully made it worth two and a half billion dollars. His weaknesses in manufacturing, his weaknesses in engineering were exposed. He struggled very hard to try to improve the situation, but give him his due he stuck it out. I think most people who worked for Jaguar would say it was nice coming to work. Good product, very proud to work for Jaguar. He left a heritage. But I don't think the cars in our time were very good. The XJ40 in my view was bad. But the XJ-S was a very good car. The engineering was good, but they were screwed together in such a way that they couldn't pull the pieces together. On a commercial basis, on a marketing basis, on a communication basis you could argue that John was top class. He was good with the management team; he kept the team together, good management focused team. People believed in him. He wasn't very ruthless on a personal basis, in terms of sacking people. He wouldn't do it himself. He was deficient in engineering and manufacturing experience, but he was a good project manager. But he started to believe in his own bullshit. He started to believe that he was the best person in Britain.

Why wasn't he on top of the XJ40 problems?

I think he trusted. He thought that Jim Randle in particular let him down. And he had a very dicey period with Mike Beasley, the manufacturing guy. I think Jaguar's good enough now, and a lot of the people who've done it were at Jaguar then. They now know how to do it. But at that point in time we'd not launched a new car for fifteen/twenty years. So it was a lack of experience, and none of us realising it at the time. There hadn't been a new product launch for twenty years. We did a refinement on the XJ-S. Jaguar engineering were good at refinement, even in Bill Lyons' day, but were never good at launching cars. William Lyons was never good at launching cars and getting the quality right in the first instance. What he always did was offer value for money. When it came to the XJ40 we felt we'd done a massive amount of testing, but those cars were virtually hand-built. But we hadn't done an engineering/manufacturing launch of a new car for twenty-five years, and it didn't work. We did say in the privatisation document how risky

[85] Edwards is being somewhat disingenuous here. Michael Edwardes describes how BL from 1978 onwards pursued a policy of communicating directly with employees, and how at Austin Rover in 1979 Harold Musgrove, the Managing Director, and his team "put the product strategy across to some 18,000 employees – on day and night shifts – talking virtually continuously to groups of 1,000 people at a time" (Edwardes. *Back from the Brink. pp172,271)*

it was with the XJ40.[86] One of the big debates we had with Hill Samuel was that we'd originally planned to launch the XJ40 in 1983, but Hill Samuel said you can't do the launch and privatise at the same time, and John knew he couldn't do the car in 1983. Launch it later and do the privatisation first. And then the launch went back and back. In fact it was launched in 1986/87. When I started there it was in the new product plans to be launched in 1983. From that unsuccessful XJ40 launch it was only a matter of time really before we got taken over. The cars were still selling, and we thought we could sort it, and we did, but not without a lot of grief.

Whom did Jaguar regard as competing with it?

John in the early 1980s used to see Jaguar as being the British equivalent of BMW. BMW were doing 500,000 cars a year[87], but in 1960 BMW were doing 20,000 cars a year, which is what Jaguar were doing in 1960.[88] So, we said "We've got to catch up", and that's what we were trying to do. In aspiration terms it was Daimler Benz I guess. In model terms it was BMW 7 Series and Daimler Benz S Class that we saw as the competition. The concept we had of a 3 Series, a 5 Series, a 7 Series, Ford had the same concept. Our next aim would have been a 5 Series - we called it the XJ80. So we had it all there. We thought we could do it all ourselves - we could be like BMW and get 100,000 volume. That's what we were aiming for. But we pushed the volume too much.

Transcript of the interview with John Edwards on 27th October 2003

[Comment following Author mentioning some of those interviewed for this study]: John Grant and Alex Trotman can only tell you what was there when they arrived at Jaguar, they can't tell you what was there in 1984/85. I never saw a finance director who could do more than help other directors achieve their jobs. I was very close to John Egan, so I knew what he was thinking, but that was on strategic issues.

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[86] Far from spelling out the risks associated with the XJ40, the Offer for Sale document was highly positive. Page 17 stated the following: "The continued financial success of Jaguar will depend on several factors, a key one being the successful launch of the XJ40 model range. There is no immediate commercial pressure to introduce this new car. The car is undergoing an extensive and exhaustive development and testing programme and the Directors are confident that, when launched, it will enhance the ability of Jaguar to strengthen its market position.....Jaguar has a famous name in all the major car markets of the world. It has the potential to produce and sell more cars and the Directors are confident that future prospects are good and will be enhanced by the XJ40".
Again, in the information video *Jaguar 'Risk and Opportunity'*, produced ahead of the privatisation, the XJ40 is not cited as a risk factor by Egan, and Jim Randle is shown as stating "There can be no way we can launch a new car that is not at least as good as that going out".

[87] BMW total worldwide sales (all models) exceeded 400,000 units for the first time in 1983, and exceeded 500,000 units for the first time in 1989 (Source: e-mail from BMW Business and Finance Communication Department to the author. 25 September 2008).

[88] Jaguar deliveries in 1960 totalled 19,341 units (as shown in Figure 3.3 in the main text).

Can we revisit the issue of Labour Relations.

A problem was that John Egan thought that everyone at Jaguar should love him because he'd done such wonderful things for Jaguar, and he couldn't understand the blue collar mentality. Bill Hayden sorted out manufacturing without a doubt. Scheele got rid of a lot of the foreman level, the chargehands who were part of the problem.

What about the problems with Manufacturing?

There were the three boxes of engineering, manufacturing, and the commercial aspects of it. The demand for luxury products existed and we re-established that. We re-established products that people were interested in buying. In the 1980s compared to the crap of the 1970s the manufacturing quality improved. The Series III was very good. Right up to the XJ40 launch the quality of the Series III got much, much better. So that part of manufacturing was stabilised. Where we failed miserably was that the engineering on the car was nowhere near ready for launch on time, and it was launching it into a manufacturing organisation that couldn't cope with it that caused the problems of the first two years of XJ40, and that was a mess.
We had a huge problem with manufacturing in the early 1980s. But manufacturing improved, and improved immensely under Bill Hayden. Nick Scheele got the assembly factory sorted out, and Jim Portillo sorted out the engineering. But until then, from the early 80s, Jim Randle put his efforts into engineering cars that didn't bloody work. Manufacturing got a lot better, without a doubt, but not with Series III. The XJ40 was prematurely launched. It took us three years again to sort it out. It was not correct to say that people weren't that interested in quality. It took a long time to rectify the situation we found ourselves in. The problem was the launch of the XJ40. The 1990 model year car, the XJ40 saloon, was the car we should have launched in 1986, so it took us three years to get things sorted.
From where I was sitting there was a massive emphasis on quality. I've seen John pin Mike Beasley up against the wall over quality problems. He was very brutal at times, was John, and he put a lot of effort into trying to resolve the quality problems. Quality Circles were a load of bullshit, as were the Total Quality Management people. Some of the actual quality improvement groups were very focused. John actually ran one himself on the AJ6 engine, and he actually sorted it out over a period of time. He was dedicated to doing that. The fundamental fault was that Browns Lane was a poor assembly plant in 1980. The bodywork was crap in Castle Bromwich, the paintshop ditto. Every car was sort of hand-built. That was the Jaguar way; resolve the issues on the shopfloor. But still engineering had not ensured that everything had been done, and that the prototype worked properly before you cut metal. So we went on this massive prototype launch of the XJ40. They were all fantastic cars. They did a million miles on the road trying to prove them out. But they weren't product line cars. Mike [Beasley] improved immensely under Bill. But it wasn't until Clive Ennos came along for engineering that it was sorted. Jim [Randle] was bitterly upset when he got fired. We improved tremendously during the 1990s, but we were ten years behind everyone else. In the 1980s we were improving, but it's just that we were behind other people and it just wasn't good enough to sustain our long term position. We were making improvements all the time, but then we went into this great big

dive; the XJ40 when engineering just created a nightmare! The engineering improvements didn't start to come through until the 1990 model year.

It is difficult to see how Jaguar could have survived into the 1990s as an independent company.

We came to that conclusion as well, that's why we sold out. But if we had started twenty years earlier we could have done, because BMW only made 20,000 vehicles in 1960, compared with Jaguar's 20,000 vehicles. Obviously BMW did magnificently well. They got to 300,000 vehicles quickly. That was the logic Ford used on the Jaguar acquisition. With Ford's help these 3 Series, 5 Series, 7 Series, that is, the X Type, S Type, the Saloon, and the XJL were the basis of a 300,000 volume which would make everything worthwhile, that would work in terms of the numbers. We had a view of trying to expand the volume on the Saloon and the S Type, but we couldn't get the costs to make it work; we couldn't get the margins. We'd have ended up with a 50,000 maximum type car. So I guess the PLC thing wasn't going to work.
We first realised that in October 1987 with the Stockmarket crash. The exchange rate started to go adverse again and the American demand went down. They weren't discounting massively. Prior to the crash, dealers were asking $4,000/$5,000 premium. It is that that disappeared after the crash. That halo of demand disappeared after October. The American demand disappeared; not necessarily straight away, but it did disappear. We were right in the middle of struggling with XJ40 quality.
At that point Ford came on the scene. Ford came and talked to us. We were trying to maintain some semblance of independence but I think that John and I knew it couldn't go on for ever. It was just a question of time. But we thought we'd get to 1990 when the Special Share ran out. From 1988 onwards I knew that somehow or other we'd lose our independence, there was so much interest from the other big car companies, and we were so small without a great capacity to go anywhere. That is, without a 5 Series type car or a 3 Series type car to expand the model range. We were trying to find another way of getting round things. The XJ40 launch problem gave us a problem because if it had gone smoothly we'd have been able to work with the British government to buy Land Rover. That would have given us a much bigger volume. But that didn't work. Then in the late 1980s Ford came on the scene and said they were interested in buying us, then General Motors came on the scene. The fate of Jaguar was determined in Detroit, not at Browns Lane.

So how much of the effort in 1988 and 1989 was directed at getting the best price for the company?

We never thought of it that way. Never! We just worked on our instincts. It wasn't a question of enticing people in. One of our logics was based on trying still to make something of an independent Jaguar, which was our gut instinct, maybe a naïve instinct, since before the 1984 privatisation. We wanted to build all the way through the 1980s a company which would be the new BMW, the English BMW. It was that that drove us on, and I think to a greater extent it was only the realisation that the shareholders were only interested in the share price going up, because we'd be acquired by either Ford or GM,

that made us realise the fact of life that there were certain prices you can't say no to. As a board of directors you just can't say no just because you like being independent.

What about cash flow?

We didn't run out of cash until the 1990s. We were still making a good profit. We broke even in 1989/90.[89] In 1992 we'd have got wiped out in a few months. The market collapsed. In that year the market halved. The budget for that year was based on 50,000 cars, but we produced 25,000 cars.[90] We had to produce 40,000/45,000 cars at that time just to break even. We should have gone bankrupt in 1980/81, but when the exchange rate was $1.10 we could have produced only 10,000 cars and still have made money.

Mike Beasley said that being a quoted company put massive constraints on the company. Was that true?

In terms of building cars it didn't. It gave us a massive profile. And it gave us another dimension to the marketing programme: "Buy the car and buy some shares", which is what we used to do in the US. This became the big story of NASDAQ.[91] Which is why we became a NASDAQ company. Certainly it raised that kind of dimension, and enabled us to get a much bigger name and reputation as a company than it was in reality. There was the motor racing programme which was another part of the hype that we got. But there was nothing that constrained manufacturing because we spent as much money as manufacturing could spend to improve it. We built an engineering centre. No wonder engineering couldn't work; they were working in tin sheds at the bottom of Browns Lane! No wonder they couldn't do things properly! I don't think that anyone would say that being a PLC was a constraint at all. We had to give a talk about our results every six months, but that wasn't a constraint. Capital expenditure was never constrained by being a PLC. I gave him [Mike Beasley] loads of money. He did far better than before. There wasn't anything I can think of that was a constraint. One good thing that came out of privatisation was that we had to delay the XJ40. If we'd launched it in 1984 it would have been even more of a disaster. We never had a problem with paying dividends, and there was never any pressure to increase dividends. We were able to do a lot of the things we wanted to do, such as the Venture Pressings joint venture with GKN. So, I don't see that the City caused too many problems.

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[89] At the pre-tax level in 1989 Jaguar reported a loss of £58.3million, and in 1990 reported a loss of £66.2million (as shown in Table 4.3 in the main text).

[90] The actual 1992 production figure was 20,337 cars. (as stated in the Jaguar Ltd 1993 Accounts filed at Companies House)

[91] National Association of Securities Dealers Automated Quotation system, the junior New York share trading operation.

Transcript of the interview with John Egan, 30th October 2007

Was the poor state that Jaguar was in when you took over more because of BL, or because of the Lyons heritage?

I think it was mostly because of British Leyland, but there were all kinds of other things that were wrong with Jaguar because of, let's call it, the nature of the inheritance. So, for example, I think they [the Lyons management] were very interested in designing and developing new cars, but I don't think manufacturing was ever a well thought of discipline. The service department was very important, and the offshoot of that was the racing, that was all very important, with "Lofty" England[92] and so on, but I don't think manufacturing was ever a highly thought of discipline.
The fact that they actually bought an assembly line second hand from Triumph didn't make you have a lot of respect for the manufacturing discipline, and there was no discipline between manufacturing and engineering. For example, I inherited the parts division of Jaguar, and I put them together into Jaguar Rover Triumph Parts in the 1970s and I don't think that Jaguar Parts ever made any money until we got our hands on it. They were constantly changing part numbers and this made it very difficult, so the obsolescence in the parts department was varying huge.[93] I think that the limited managerial talent that Jaguar had concentrated on what they were good at, which was designing fine cars, but the manufacturing disciplines and the orderly disciplines were not well established. It was a pity in a way since the company would have got further along its route before Leyland took it over if they'd had some highly disciplined person in there with Bill Lyons as well as good engineers, because he had some very fine engineers, there's no question about that, and his eye for design was really excellent; there's no question about that either. But there were difficulties with the heritage I agree.

The only book that really talks about the Jaguar management per se is Underwood's book.[94] He does seem to have had the full co-operation of Jaguar in researching it, and been able to talk to everyone. Is that correct?

Yes.

Underwood mentions that you did have some misgivings about the Lyons days.

Yes, it sounds almost sacrilegious to say that, but there were things that weren't entirely perfect But there were obviously very great strengths. Of course, if they'd had that very disciplined approach and probably a much more disciplined approach to sales and marketing it would have grown beyond its thirty-odd thousand units which it never

[92] "Lofty" England, who succeeded Lyons as Chairman of Jaguar, was a one-time racing/rally driver who started with Jaguar in 1946 as Service Manager, and managed the Jaguar racing team in the late 1940s/early 1950s (Whyte, Andrew. *Jaguar. The definitive history of a great British car.* Second Edition. (Wellingborough, 1985). pp9,120).
[93] Detailed in Whisler. *The British Motor Industry 1945-1994.* p99
[94] Underwood, John. *The Will to Win. John Egan and Jaguar.* (London, 1989)

actually grew beyond in the Lyons days. Something would always stop it getting beyond thirty-odd thousand cars a year.

How would you describe your own management style when you were at Jaguar?

It was one of evolvement of course. I'd never run a car plant before. I'd run fairly big organisations, but never a car plant, so I had to learn very much about running a manufacturing operation and an integrated car company as we went along. The speed at which we had to do everything was one thing you'd have to remark on. So, for example, when I arrived there was only a manufacturing and an engineering operation called Jaguar. So, to make up a company we had to bring in a personnel department, a finance department, and purchasing, and sales and marketing, and eventually create a complete car company. So, I would have said that the first couple of years were spent in pulling together the various disciplines required to make a complete company, and also pulling in the parts of the company we didn't manage. So, we had to take in Castle Bromwich, which was the body-in-white and paint plant. It was a huge plant, and we were using only a small part of it, but we had to take on the whole lot because Austin Morris were walking away from it all. And then we had our quality problems to overcome. We started up a system of telephone interviews with customers, and we basically identified about 150 key faults that we had to overcome if we were going to create saleable cars. And I remember we handed them out ten each to a load of people. I had my ten. My ten were mostly associated with external things. Most of our problems were actually external, except for the body-in-white,[95] and paint, which was a huge problem which Mike Beasley fixed. But most of my problems were associated with component problems that we bought in, and I had to go and fix them all. And we fixed them. And within about eighteen months we were beginning to create saleable cars, and they were beginning to sell. At the same time we took over the North American operation of British Leyland. They'd stopped doing all the other cars, MG and Triumph, so we inherited a complete sales network with only Jaguars to sell, although they were only selling 3,000 a year at the time. As they became saleable we began to turn on the sales effort. But in terms of how unsaleable they were, the single biggest problem we had was our body-in-white quality, and also paint. These were dreadful problems. We were reworking all of the cars when they came from Castle Bromwich to Browns Lane. We had something like six hundred people in something called "The Snakepit" reworking the bodies that came in from Castle Bromwich, and repainting every one. Every single one was repainted fully. So to get rid of that problem with six hundred people, and do it right first time, required an immense amount of patience and hard work.
But as soon as the cars were saleable they started to sell. It was really quite dramatic. The Series III had been extremely successful, and was a very beautiful car. It fully matched up to the long-term heritage of beautiful cars from Jaguar. As soon as we got it saleable the American dealers responded. We brought them over to see us. They responded immediately. And the final trick to turn into profit was the fact that we were running out

[95] Until the Castle Bromwich plant was taken over by Jaguar the body-in-white was regarded as an external supply, and included in the 60% of the faults attributed to suppliers. In an e-mail of 18 July 2007 to the author, John Edwards stated: "The body was a big part of the imported cost. It came under Jaguar control in 1980. As a percentage it was something like £800 out of £5,000. That is, 16%".

of cash. At one stage I was having to report to the board of BL on a monthly basis on our cash position, and we really had to take dramatic steps. Once we got the quality going, and once the sales lifting up we were still running out of money so quickly that we had to make changes to our productivity. I remember saying to John Edwards "Well, how many people can we afford to pay?" We had 10,000 people working for us and John reckoned we could afford to pay 6,000, and that meant we had to make 4,000 people redundant, which we did across a period of about four months.[96] Three things happened all at the same time: (a) the cars were saleable again (b) we now had 6,000 people only, and (c) sales volumes were going up. And all that happened at the same time. By 1983 we were profitable. So the turnaround was basically from midway through 1980 to midway through 1983. So all that happened about the same time, having started midway through 1980. So it was quite dramatic, but the first two years were really spent in curing the quality problems, putting the organisation together, and then finally getting the productivity right to the point where we could actually make some money out of it. So, I would have said that what typified the management style. It was really getting with the next major job and doing it. I had a very capable board of directors of people who were working with me, the likes of John Edwards and Mike Beasley and so on, and Roger Putnam and so on, but I also used to have a regular meeting, about every two months, might even have been every month, with the senior one hundred people where they all got to understand the problems we had to face. They were able to contribute to the solutions, and we able to work together as a group. And, finally, we did communicate very well with the workforce. They were told what was going on. Everybody knew what we were doing. There was no question, everybody knew. And all of the managers got used to doing public speaking. Everybody had to get out and talk to all of their people and tell them where we were. So, we got out there and communicated. We listened and we got on with it. We communicated well, everybody knew what our priorities were. Quality was the number one priority of the company all the way through this story. We did other things as they came along, but quality was absolutely paramount.

How do you respond to the accusation that you were autocratic?

I might have appeared autocratic because we had a plan that was absolutely developed by everybody, but once we got the plan I turned into the autocrat to get it carried out. And I would help people to do their piece of it, but basically we all got on with the thing we'd decided we were doing, but that was developed as a group.

Did you ever have a long-term strategy as such?

Well, of course, in the first two or three years there was nothing called a long-term plan. I think we were punting the ball down the field as far as we could go. We allowed Jim Randle to build up his engineering operation. Incidentally, when we started we had only

[96] The Jaguar Offer for Sale Document, 1984, p10, shows total employee numbers of 9,725 as at 31st December 1980 of which 7,554 were in manufacturing. A year later total numbers had fallen to 8,286, and by 31st December 1982 they had fallen to a 1980s low of 7,832, of which 6,175 were in manufacturing. Thereafter, employee numbers climbed rapidly (as shown in Figure 6.5 in the main text).

seventy-eight people out of the whole 10,000 with university degrees.[97] I can remember the numbers absolutely clearly. If we'd been a Japanese or a German car company we'd have had 3,000 people, so we set up the open learning centre. Basically the concept was to enable our education level to rise to the level of the task. We decided to educate everybody who wanted an education. That tradition has continued in Jaguar. We did that as a survival tool. Anyway, in the meantime Jim started building up his capability. There only 230 people in the engineering operation, and we reckoned you needed at least a thousand per car line. We needed at least 1,500 or 2,000 to do two cars. So the first thing we did was to get the saloon up and running, and then we decided to try and resuscitate the XJ-S which we'd stopped making. So the XJ-S we salvaged and got back into sale, and we developed a very high performance HE model; it had a 15 to 1 compression ratio. And we developed this in an attempt to beat the gas guzzler legislation in the US, which we did. We just barely got it through: this 5.3 litre engine was a non-gas guzzler, so that was quite something. So, out of all this we began to see that we had the capability of perhaps designing a new car. Well into the entrails was the XJ40 coming through, but apart from Jim Randall nobody'd had any time for it at all because we were really involved with the survival of the company. But the XJ40 project started to emerge as a future model programme, and then for a replacement to the XJ-S as a secondary model. And then for face-lifts in-between we started bringing in the discipline of a model year programme so there was something happening to the cars every year. And, of course, we were expanding our sales network all the time.

We, generally speaking, separated from British Leyland whatever we were doing. British Leyland franchises had been scattered around. Anybody who wanted one could have one, so we had hundreds of dealers in the UK. I remember inviting all of the dealers to a sales conference to basically tell them that we now wanted much higher standards than British Leyland had asked them to achieve. And I remember at the end of it all I said to them that "Now I want you to look to the dealer to right and to the dealer to the left and I want you to understand that the next time we meet only one of the three of you will be here because we are in the process now of improving our dealer network".[98] I remember that one of the grandees of the dealer network, Wadham Stringer, which later ended up as part of Inchcape, came to see me. He said he wasn't going to achieve these standards; he wasn't going to do them; he was going to have nothing to do with them. British Leyland had told him what to do and those were the standards he was going to live by, and as far as he was concerned he had spent the money, and that was it. So I said to him "How many of our dealerships have you got?" He said "We've got eight". So I said "Well, I'm going to ask for all eight of them back again because you're terminated". You know the dealer contracts were most curious. You could terminate them within a month. There was very little time they'd got. So it was very easy getting down to our target number. The average dealer had been selling twenty or thirty cars, and we wanted the average dealer to sell

[97] Of the eleven members of the Executive Board under Egan, only two (Egan and Edwards) had university degrees, although some others held professional qualifications. In an e-mail on 28 August 2008 to the author, Mike Dale related that the surviving members of Egan's Executive were sent on an MBA course in management by Bill Hayden and Nick Scheele.

[98] Whyte (*Jaguar*. p179) states that it was Neil Johnson, Jaguar's new Sales and Marketing Director, who announced, at a BL dealer council meeting in March 1982, that there would be a drastic reduction in the number of dealers. (Jaguar still came under BL at that time).

about a hundred so he actually got some money out of it, and he was organised and disciplined.
We did the same in the US. The average car was only grossing about a thousand Dollars, and there were three thousand cars being sold, so the whole of the network was only getting £3million out of its sales of Jaguar cars. Within five years we were selling 25,000 cars and they were grossing, I think, $7,000.[99] So, they had gone from $3million to, I don't know, $300million[100] all in the space of five years. It had become a very valuable franchise.
So, "Was there any long-term planning?" Well, new models were long-term planning. A new car was a long-term plan. But we were putting into place things like dollar hedging, which BL had not done. At the time I was running Jaguar the dollar varied between $1 and $2 [to the £]. So it started at about $1.80, went up to $2.10, and then went back down to $1, and ended up at something like $1.50.[101] We became a very efficient hedger. We were okay at about $1.60; anything better than that was just magnificent.

Why did you focus purely on Jaguar, and didn't do what many other companies at the time were doing and using your paper to expand into related areas, or even different areas?

There were two issues. First, I was very anxious to have a very conservative funding strategy so we never had any debt. Once we got into profit we basically stayed cash positive, and we also tried to make sure that we did not deplete our reserves. Also, we had committed facilities of £300million or £400million. I knew that we needed a huge resource to get this job done. I knew it was very difficult. And I knew that we needed a strong balance sheet if we were going to see our way through difficult periods of time. And the reasons, of course, that we got such a good price in the end were that (a) we still had cash in the bank (b) we had some of the hedging left, and (c) we had three or four hundred million pounds worth of committed facilities. We could have worked our way through the next recession. It would have been very tough, and the new model programmes would have had to slow down, but we could have stayed in business. One of my difficulties was that I could see that the terrible confluence of everything going wrong was going to happen at the same time: (a) a weak Dollar, and it was flying back up to $1.80 or something; (b) we had inflation in the UK. We're now talking about 1990, we're talking about 10% inflation again;[102] (c) we're talking about a relatively weak market in the US. Now all that was happening at about the same time. And we'd preceded some of that and started to have discussions with Toyota. We thought we'd might as well try and get help or work with the best company in the world. They were quite interested but then eventually decided not to work with us. I think that if we'd gone to Nissan we'd have had a different story. I've since heard that. So, let's go through the whole issue. Financially

[99] The more generally accepted figures, as per the Mike Dale interview, and comments in *Automotive News,* is that the average dealer gross in 1980 was $1,500 per car, and $6,500 per car in 1985.
[100] This figure calculated on the quantities stated here should be $175million.
[101] The range was $2.41/£ in November 1980, to $1.06/£ in March 1985. In 1986 the rate fluctuated between $1.39/£ and $1.56/£., and thereafter, to end 1989, the rate fluctuated between $1.50/£ and $1.90/£.
[102] Year-on-year change in RPI: 1988 +4.9%, 1989 +8.9%, 1990 +9.5%, 1991 +5.9% (House of Commons Research Paper 99/20. 23 February 1999).

we were very conservative; we saw it as a really difficult thing to survive in the UK which was a pretty harsh environment for a small motor manufacturer; we didn't have a single world-class supplier from the UK (nobody could make/design us anything in the UK of any great quality or worth), so we were increasingly going to Japan or Germany to have everything designed for us, and that was a really big struggle, especially since they were always trying to make more money out of us than they would try to make out of Porsche or BMW. So one felt it was a pretty alien environment. So, I thought there was no room for any margin of error. However, we could have bought Land Rover if we'd had wanted to, and we had a very big debate about it, and then we decided that it would have simply have made our risks too big. Nor did we see much in the way of synergy between the two companies.

Do you still hold that view?

Well, there's not much in the way of synergy. Probably Land Rover theoretically was a better business than I thought it was. Certainly I think that Ford and BMW did a pretty good job with Land Rover. But I don't think it was going to make our task of survival with Jaguar any easier. So, yes.

Why didn't you have a Rights Issue at the time of the XJ40 launch to fund the investment you needed to put in?

Well, you see, we didn't think a Rights Issue was feasible if we weren't going to make substantially more money, and the risks of things like this were much bigger than anything to do with our profit margin. We said to ourselves that if we ever had the courage to go into another new model we would. So if, for example, one of the things we would have done if we'd joined up with General Motors we'd have had to have a Rights Issue to fund, let's call it, an S-type Mark Two size car. So that would have happened, yes.

Why didn't you put in a modern assembly line. Wasn't that a lost opportunity?

We thought body-in-white was more important. And that took all the money we had, more or less, to get the body-in-white right. Yes, you might well be right, but we had an even more pressing requirement for our cash for the new models. Yes, we would have got around to a new assembly line. We'd done the engine; we'd got some pretty good kit for the engines, pretty good kit for the body-in-white and the paint, and we would have got round to the final assembly. And I guess we should have done that for the XJ40, there's no question about that.

Wasn't a big part of the problems on the shop floor the shop floor managers, junior in the Jaguar hierarchy who were often not reporting things back, were not putting into effect things that senior managers wanted? Did you have any understanding of that at the time?

Well, obviously we had communication programmes and we knew that we had basically a supervision that were not terrific communicators. But we thought that they were practical men and they were willing to talk with their people. We were probably trying to do too much of the communication and the listening from a higher level. That's probably true. But we did our best. We did actually try to do our leadership programmes and our training programmes for them. I've since put in training programmes for that first line of supervision when I was running BAA that were far more successful.[103] That was one of the things that I had learned. The first line of supervision was absolutely the crucial level, and you've got to get them involved. And we did that [at BAA] by creating something called "Creating Successful Teams". But, no, we didn't have as equally a powerful programme at Jaguar.

I heard that you'd had these communications meetings. Feedback from the shop floor was invited, but when that happened the guys would be taken aside later by their supervisors and told 'Don't rock the boat'. Any comment?

I don't know whether that was happening. Certainly, the trade unions were not very positive either. One always got the feeling that the only weapon we had, apart from all the leadership things, was pointing back at ourselves, and I noticed that as soon as Ford got there they were very, very straightforward. Ford said to them "Well, if you don't want to make the cars that's fine, we'll make them somewhere else. You don't need to make them". That rather threw the shop stewards. We tried, and yet I feared that we'd got too much history to overcome. I feared it was very difficult. And other people did do well by starting from scratch. We had made huge progress of course, but it still wasn't enough. The thing about competing with the world car industry is that you can't just do 7% improvement for one or two years, you've got to do it every year, otherwise you're not in business. We made some very big strides, but they weren't enough.

You had the reputation of being very anti-union. To what extent was this play-acting?

Well, they'd been very useful to us when we'd been creating our separation from British Leyland because they wanted to get separate from British Leyland, but once we'd got into profit and once we'd got a future in front of us they weren't the same power for good. They didn't actually help us much.

[103] Following his departure from Jaguar, Egan became Chief Executive of BAA, the publicly quoted owner and operator of major British airports, including Heathrow and Gatwick, and Edinburgh.

You had a fair number of silly disputes didn't you? Disputes that didn't hit the press or anything, but were the odd day here and there.

Yes we did. It was very distressing to me. As far as I could see we'd done everything we could do in our power to make this relationship positive, but it never seemed to be enough. It was unnerving. You'd be making huge progress, and yet....One of the things that always distressed me too was that I could never get them to work beyond 3.30 in the afternoon. I used to walk around at 3.30 and talking to people, asking why we can't get this extra car finished. It was "We've finished our stint, and that's it". They'd organised things, and they'd work a bit harder so they could always finish and have a rest for the last half hour. It was something I always found pretty unnerving.

You seem to have had some sort of animus towards British Leyland. I can understand you wanting to get rid of the shackles and so on, and I've heard various comments of just how bad they were, but was this a real problem for you?

It was really very, very unsatisfactory. When we were privatised we had to have a non-executive Chairman, and that was within the gift of British Leyland to appoint this person before we were floated. And, anyway, we got floated, and we got our non-executive Chairman, but unknown to us he was having meetings with the non-executive directors, including Ray Horrocks, who was the Chief Executive of BL, about creating a conglomerate out of Jaguar; to use our increasing cash resource to buy other companies or businesses. He particularly wanted to buy, because he had one himself, the Hawker Siddeley 125 production line.[104] He was also looking at a yacht-builder in Italy, and other luxury goods. Luckily, the merchant bank that had been appointed, fortunately jointly by us and the Chairman, came to us and said "We think your Chairman is behaving in a very strange way, and something that we believe is entirely inappropriate for your company". So, I went along to our lawyers and said "What should I do?" They said "You have no choice, you must sack him". So I sacked the Chairman at a board meeting, and we also made it clear that we'd like to see Ray Horrocks also leave the board. The lawyers said "Don't give any explanation of it, just tell them that they've got to go", which is what we did. The third non-executive director, Ted Bond, immediately threw his hand in with us. He said "I thought they were crackers, but I just went along with it. I only attended three of these meetings and I thought it odd that you never knew. I assumed that you had some input into it" But of course I hadn't. That is one of the reasons why the relationship was so bad. It was a very bad relationship and it was entirely their fault. All I did was to do what my lawyers suggested I had to do. I had no choice. They said "You can't have your Chairman spending all your money. You can't have your Chairman creating a split board like that. You're supposed to have a unitary board. You're supposed to all agree on what you're doing".

[104] Hawker Siddeley 125 was an executive jet aircraft.

How were BL as suppliers?

They were very poor. The body-in-white was a disgrace. Even when we only getting panels from them we were having to rework the panels even before we put them into a body-in-white. Once we'd actually got body-in-white under control we were even having to rework panels coming from Swindon. So, we created our own panel supply; a joint venture with GKN.

Why did you feel you had to do all the engineering yourself when more and more manufacturers were going outside for some engineering? For example, General Motors had several of their cars in the US designed/engineered by the UK company Hawtal Whiting. Why, apart from some styling, did you try to keep it all in-house?

We built up a capability to do what other car companies did, which was to fully engineer their own car. We needed a big capability because none of our own suppliers were capable of doing their part of the job. We were working with other people, but certainly we were pretty adamant that we should build up a capability strong enough to do our own engineering of our own car fundamentally.

I've heard a lot of criticism of Jim Randle. How much of an issue was there?

The XJ40 wasn't part of our survival programme but we kept it going and we built up our engineering department, and everybody hoped the XJ40 was in good shape when we got around to it. And at one stage I started chairing the XJ40 development programme, including putting it back for a year when I got hold of it. I suppose that Jim did not have a modern managerial style. He'd been extremely useful throughout the turnaround programme where he'd had to put huge resources into re-engineering the Series III and the XJ-S. Obviously he didn't have all the resource to do it all, and I think he was always very optimistic about what he could do. And I don't think he listened very carefully to the feedback from all the testing we did on XJ40, for example. Perhaps we'd given him a job that was impossible to do with the resources he had. He certainly pulled his weight in the turnaround programme, but as it turned out in the end the XJ40 programme was not as well advanced as it should have been. I'd always assumed it was fundamentally because he'd never had anything like the right kind of resource at the critical part of it. I probably should have killed the XJ40 and started again when we had the resource available to it because I think we were always feeding in resource into the programme after it was required.

Do you think you could have realistically killed the XJ40?

No, not in terms of market perception. We were floated because we had a new car project. Incidentally, before we get too harsh about the XJ40 let me say these things: We'd come from a stable called British Leyland that didn't actually launch any successful cars at all. None of them were a success. The only cars that were successful

were those that pre-dated BL, the Range Rover for example.[105] So you couldn't say that they actually launched a new car. So we come from a stable that didn't know how to do it. That's point number one. And number two, we didn't really have the resource there in time to do it. And third, however, the car eventually was actually quite a success because the rework that we were doing, and that Ford finished off, actually made it into a very good car, a more successful car than the XJK which replaced it. So, actually we didn't do a bad job. And, by the way, Bill Lyons never got his cars right the first time; they were, generally speaking, got right the second time. The facelift usually was the one that got it correct. So by the standards of Jaguar we probably didn't do a bad job, strangely enough. And those were the only standards Jim knew. He didn't know any other standards.

How much of a difference did becoming a quoted company make to you?

Not much really. We'd earned a huge amount of independence from BL, but I think it might have been better. In one of the big shoot-outs that Michael Edwardes had, which looked as if it was going to be a shoot-out to the death, I started to look to see if I could get any funding for the management to buy the company. Ian MacGregor[106] was helping me, and we'd have got the money. In a way I was disappointed when the unions backed down and BL wasn't broken up. It might have been better if it had been a private company. It might have been easier. We probably would have taken longer over the XJ40 and we might have got it right first time if we'd have had longer with it. And the constant urge to be more profitable next year actually did lead one into making mistakes.

But there were lots of quoted companies at the time that had gone to the City and said "It's a five year plan, we're not going to make increases every year because of..." and had not been marked down [suffered a fall in their share price] for it?

Yes, but I think we were too immature for that

When did you become aware of the extent of the quality problems with the XJ40?

Well, we'd got all this feedback from the field, from the testing programme. We'd built two hundred prototypes and we thought we had cures for everything, but actually the strange thing was the real problems we got were things we didn't know about. The biggest single problem we had was the battery. We were totally unaware of how big a problem it was. The second issue was, for example, the air conditioning, which had internal leaks in it. Again, that was another completely unknown. And a lot of it was our suppliers. When they geared up their volumes we went through horrible quality problems. We tried to keep it under control, but it wasn't until the cars got to the United States that we really found, six months into the launch, that we had big problems. I personally found

[105] However, Edwardes states that BL's Metro, launched in 1980, "set new records. After its launch it went on to win numerous awards and prizes. It is currently the best selling smaller car in Britain" (Edwardes. *Back from the Brink.* p195).

[106] Sir Ian MacGregor. Director, Lazard Freres (merchant bank), 1977-80; Non-executive Deputy Chairman, BL, 1977-80; Chairman, British Steel, 1980-83; Chairman, National Coal Board, 1983-86. Returned to Lazard Freres 1986.

out when I went to the States for my normal monthly meeting, and we had a month or two months' feedback from the cars. I remember it was the most awful month's sleep I ever had when I realised the enormity of what I would have to do. It was almost like going through the Series III thing all over again.

Was this because it was a higher specification car in the States?

No, generally speaking I think our UK dealers were much better at looking after the customer. The US dealers didn't really expect to do very much to the car, and they didn't![107] So I don't know why. There's nothing too harsh about conditions in the US other than it gets a bit hot now and again and a bit cold now and again.[108] I personally did not feel as if we had a Grade A problem here until I got feedback from the US, and then what we did was to put in place exactly the same programme that we'd done for Series III. And I have to say that quite quickly the cars were saleable again, but by God we didn't half have a fright. It was a shock! Frightening!

So there wasn't a problem with the UK launch?

There didn't appear to be, certainly not from my perception. There were problems that seemed to be containable. Maybe people were making cooing noises to me. Maybe people weren't used to telling the absolute truth. But certainly when I got to talk to dealers in the US they left me absolutely no room to wiggle out of that one. I had to come back and fix it.

Some commentators have suggested that your intention all along was to sell the company. What is your reaction to that?

No. It was to punt the ball down the field for as long as we could. I was aware, however, that there were times when running the company as an independent was not going to be possible. When we had worse than $1.80 to the £, and we had inflation in the UK, our profit margin was wiped out in any event. And unless we could become absolutely, absolutely world class in everything we did I couldn't see any other solution to it. So I always thought there would be times when our survival would be difficult. I wondered if we could become so rich we could buy our way through those problems, but I realised that having a big cash mountain of £200million/£300million just made you prey to any Tom, Dick, or Harry who would come and buy you. Did you know that James Hanson

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[107] Mike Dale strongly rejects this view, and in an e-mail to the author on 9 May 2008 he pointed out that: "The J D Power report showed that the US dealers were doing an above average job of satisfying the customer. J D Power also showed that we had as many faults per car in three months as the first Lexus had in five years. No dealer body could cope with that onslaught in the most brutally competitive market in the world". See also *Appendix* footnote 130 page 119.

[108] Mike Dale again strongly disagrees, pointing out in an e-mail of 9 May 2008 to the author that: "Temperature and weather in the US are far more extreme than in the UK, both hot and cold. This certainly had an effect on everything from the windscreen wipers to the self-levelling suspension (for which they never found a fix, and we abandoned it). A break down in the US was potentially much more serious than in the UK because of the weather and the distances. We were so desperate about this that we even considered a helicopter service to help travellers in need".

and Gordon White were once interested in buying the company?[109] James rang me up and said he was thinking of it. I said "why don't you come along and have a look at it, give you an idea of what we're about". "Great" he said "I tell you what, I'll send up Gordon. You can have a good chat. Tell Gordon everything, and then we'll talk". Anyway, Gordon came up, and I showed him round, and then I said "Gordon, how much money does the whole of Hanson spend on R&D?" He said "Gosh, I don't know. £8million?" "Well", I said, "you're going to have to get used to some different numbers here. Our R&D is new models, and we're going spend £50million this year on our new model programme, and we're also going to be spending £100million on new equipment and new investment, so there's £150million worth of new investment this year that won't make anything for us this year, but will give you a return later on. This isn't your kind of business. This is just too complicated for you." They rang me up later on and said "We're not going to go forward with the project".
Anyway, once Hanson had been at us I thought "Jesus, it won't be long before someone else comes along". So we then started to look at whether there was some kind of relationship with an excellent car company that we could control, and we'd hoped that would be with a Japanese company, and that is why we went to Toyota. We thought they'd be clever enough to work out some kind of relationship. In reality, what I learned later on, what we should have done was to form some sort of joint venture with Nissan to make luxury cars. That probably would have worked. But I don't know whether I was clever enough to have seen any other alternative to what happened. I don't think I was. I personally thought that the recession of the 1990s would have made life very, very difficult for us. Certainly it would have made it very, very difficult to have continued the new model programmes. What kind of relationship would have worked? I really don't know now. We had everyone come in to see us. I remember Lee Iococca[110] rang me up and said "What do you think? Shall I throw my hat in the ring?" I said "Lee, this is too heavy for you now". BMW and Mercedes Benz were both interested. Fiat, by the way, were in at the final round with General Motors and Ford.[111]

Do you think you were too focused on wanting to create the best car company in the world?

Yes. That's what I wanted to do, but I didn't quite make it.

With the benefit of hindsight what do you think you might have done differently?

I would have had to understood earlier than I did the enormity of a new car launch and I would have had to find somebody who could have run that; somebody who would have been tougher than Jim and would have told me earlier that we couldn't do it, and told me that we either had to start again or put it back. You see, inherently the XJ40 had been

[109] Lord Hanson was Chairman, and Sir Gordon White the Chief Executive, of Hanson Trust PLC, the leading UK conglomerate, and corporate predator, of the 1980s.
[110] Lee Iococca was Chairman of the US Chrysler Corporation at this point.
[111] John Edwards sees this as being an exaggeration. In an e-mail to the author on 30 July 2008 he stated: "There was one meeting with Fiat in around the September of 1989. As I remember it, it was merely an expression of general interest. There was never anything of substance. After Ford bought their 15% of the shares in September, the only players were Ford and GM"

designed by BL and there were all kinds of difficulties associated with the fact that the body itself wasn't really fantastic. Some of the shutlines[112] were in the wrong place. They hadn't really done a good job for us. We'd made some mistakes on instrumentation. We could have got the car to the level that finally the second series of it did. We should have got that right first time. If we'd have done that we might have made it. So I think it was associated with the development of the XJ40. I always said there were two tricks. One was learning how to run a car company, the other was developing a new car, and developing a new car was much more difficult than turning around the old one, and our luck was running out when we got around to that. We almost did it, but it wasn't good enough.

In his book "The Jaguar File" Dymock stated that Jaguar's involvement in racing was to enable you to sell the company. Was there any truth in that?

Oh no! The racing was to sell cars, and we did very well on a very limited budget that didn't cost us much at all. We set off knowing that we had to spend about £12million, but generally speaking we covered most of it with sponsors' money. Roger [Putnam] did a very good job on getting sponsors money.[113]

[112] "Shutlines" are the gaps between the body and ancillary panels (doors, boot, and bonnet) and are totally dependent on the trueness of the dimensions of the original buck that the pressings are taken from. In an e-mail of 12 May 2008 to the author, Roger Putnam stated that shutlines were "the curse on the XJ Coupe and XJ-S. In the BL era, and before, the bucks were taken from the original clays which were styled by hand and eye. In the case of the XJ Coupe the car was delayed for months as the engineers chased the shutlines round the car to get some fit with pillarless windows. This was a major leak issue. In the case of the XJ-S the right and left hand sides of the car bore no relationship dimensionally to each other".

[113] In an e-mail of 7 June 2007 to the author, Roger Putnam stated: "Motor racing was funded out of the marketing budget, but the cost to Jaguar was relatively modest, and for two years was zero, as we tried to cover off almost all TWR's costs out of sponsors' revenues. Gallaher and Castrol were the main contributors.

Transcript of the interview with Trevor Finn on 23rd July 2008.

What was your background with Jaguar?

In 1983 we [Pendragon] first approached Jaguar to take on a franchise. At that time it was generally still perceived in the marketplace as a bolt-on part of British Leyland from a consumer point of view. So, quite often customers were going to a Jaguar dealership and getting in line behind someone who had a Mini going in for service, or whatever other product that was being dropped in at the time. We met a guy called Jeff Robinson who went on to do some other jobs around the globe for Jaguar. We pitched to Jaguar on the basis that we were a BMW dealer and also a Mercedes Benz dealer. We were selling BMW and Mercedes Benz, and they had exclusive representation. They didn't share their representation with people who drove Minis or whatever. We'd done quite a lot of research on what Jaguar was, and talked to people who owned the cars. There was still an awful lot of emotion and loyalty amongst customers, notwithstanding what they'd all been through in the sense of product quality and all that kind of stuff. It was a quite distinctly different thing to the BMW and Mercedes offer. The customers were, generally speaking, really enthusiastic about the product, but the retail experience they got wasn't in tune with the fond memory of what Jaguar was about. So we pitched to Jaguar based on the idea that we would give them exclusive representation, without competing brands in the same showroom, or even more volume orientated brands, if they could create some geography that would allow us a business opportunity that would work in the sense of getting rid of four or five dealers because they were still pretty much like the BL network with a dealer on every street corner.
We basically got an agreement to open a location in Derby, and we still own that dealership today, and what we said was that we'd put together a stand alone Jaguar dealership and on that basis we'd like you obviously to support the idea but in dealer terms create an area which would give us breathing space to have an exclusive dealership. The timing was perfect from our point of view because I think we were going down the same route, thinking the same route [as Jaguar], but really they hadn't convinced some of the big groups of the day, the Kennings of this world, who'd enjoyed it as a little bolt-on, that it could ever be viable. I remember at the time speaking to some of the people in the big groups who said "You're crazy. It'll never work. You'll never sell enough cars, and customers are used to it being part of a BL dealership, and they'll live with that". We then started what was a greenfield dealership, or more accurately a brownfield dealership – we converted a facility in Derby and opened our doors as a Jaguar dealer. At the time things like corporate identity had to be almost collaboratively put together. So, we put the signage together. We actually had a lot of discretionary input into what the thing looked like. But it was credible as a facility compared to pretty well anything else in the country. We got a lot of kudos, and had a lot of people from all over the world come in and see that location in the following two or three years – dealers from Japan, and all sorts of groups of dealers because it was "This is where we want to take Jaguar" and so the Jaguar guys were pushing that quite aggressively as "This is the future". This was very early in.
What we found, though, was that the catchment of the business relative to the other dealers wasn't that large, but our ability to draw customers to us from a greater distance

was a surprise so we literally had customers driving past two or three dealers who could service their cars to come to us because they were coming to a place that was just Jaguar. We had a fantastic launch of the site. It was a three-storey building and the top two storeys were offices. We bought the site, refurbished it and everything, and Egan and his crowd all came to this fantastic launch – we had George Melly and his jazz band there. It was a fantastic night.
The business was highly successful. Historically our market place was worth about 35 cars, but in the first year we sold 146 new cars. Now we'd sold those cars beyond the market place, so we'd sold them to the north side of Birmingham. We swamped the dealership in Nottingham which was the nearest conurbation next to us. Neil Johnson, who was with Jaguar at the time, came to a lunch we'd laid on for Jaguar owners, and told us that we'd got something like 0.6% market share in the territory we were representing, which was something like five-, six-, seven-fold what the market potential was. There was a buzz going around that this was something a little bit new. Financially it worked very well also. We latched on to that and they showcased us. It's fair to say that we were unpopular with most of the other dealers at the time because we were being used to beat them up. From there on in we established a relationship with the company that because they had a good stability of people allowed us to grow the business together, and today we're the biggest Jaguar dealer in the UK, and the biggest Jaguar dealer in the States. Of all the car manufacturers we dealt with it's been the best relationship of any of them over a long period of time, and that in part has been because of the continuity of people like Roger Putnam. In the early days it was Egan and Neil Johnson. We still keep in touch with a lot of people from that era of Jaguar notwithstanding the fact that many of them have retired, or left. As a business there was a whole cohort of new dealers that came into the franchise, many of who we still maintain a relationship with. We have friends who are Jaguar dealers, more so than any other brand because they drew in a whole bunch of people who bought some of the dream.

By the time you came on the scene in 1983 had they started sorting out their UK dealerships? Had they been getting rid of some?

They had! But it had led to a crisis of confidence because whatever someone tells you, you're wrong! I think what they were struggling with was dealing with a lot of the old groups that were BL-centred, you know, big chains, probably Wadham Stringer, Kennings, Hartwells, Howells and so on. A lot of those groups were big groups that had been shrinking with those brands, particularly those with a BL connection. We went to a dealer conference just prior to opening, which would have been in 1983, in Coventry, and Roger got up and gave a presentation about how they wanted to grow the franchise, and imploring people to make the investments, and we did feel at that particular moment in time that we'd stepped into something that could have gone either way. It's fair to say that there wasn't a historic case for it, but intuitively everybody knew that as a brand, particularly in this market, it had enough latent value hidden in there that, given the opportunity, could fire up everybody's imaginations. About the time that we started they ran a programme all about "The Legend Returns", and followed on with "The Legend Grows", and I recall thinking that it was a very emotive appeal, because at the time in product terms we didn't have the best product, but it was a very emotive appeal, and, of

course, the prospect was on the horizon of a Jaguar XJ40 that will save the day and it's all going to be about new product. At that time it was quite a long way away – it was 1986 when that car started to hit the streets, so we had a little bit of time with the old product, but we were doing some things with the Series III. We were putting big wheels on the cars, trying to make them appeal to..., you know, just get back on the radar. At the time the Walkinshaw discussion was on, they'd just launched the Cabriolet 3.6 which was quite a sexy looking car, so all that kind of stuff fed the market, and made us think that maybe it's got a chance.

The Series III was recovering by then, wasn't it?

In product terms the V12 was almost a collectable car as new. The lifespans of the products had gone on for so long that they almost came back into fashion because of their unusual nature. When the Series III ended it kept running longer in Germany, and we were a dealer in Germany, in Frankfurt, at the time.[114] We bought the last 100 Daimler V12s because they continued the Daimler line right to the end, and all those cars sold at list price and they pretty much went into the hands of people who wanted a V12 Daimler in Germany. It was a real enthusiasts' car. We pitched to Jaguar, we did a presentation to Roger and Egan, when we were looking at Germany, and did a comparator between Porsche and Jaguar. At the time, probably 1987 this was, they were producing a similar volume of cars, and they both had a design and development capability because Jaguar had recently opened Whitley. If you'd looked at them from the outside you'd probably have said they were probably trying to model themselves on Porsche because Whitley, relative to the size of the company, was too large. We told them if you look where you are, look at your volumes – you're very strong in the UK, big in America, but actually insignificant in most of the other markets. If you then looked at Porsche it had the same situation – very strong in Germany and strong in the US, but struggling in some of the other markets. They were a niche product. We paralleled it in Germany. If you were to buy a Jaguar in Germany you were probably the same type of person who would buy a Porsche in the UK. Forget the product differences, but the psychological decision is to go against what people say, to go against what people think, and to have a product that is different in the market place, and bear in mind that in the home market it was BMW and Mercedes. To drive a Jaguar in Germany you'd probably have to be your own decision-maker, and to drive a Porsche in the UK you'd probably have to be your own decision-maker. We did a little bit of business in Germany – we got about 10% of Jaguar's sales there, but they never cracked it in Germany all through that period, and subsequently, because they didn't have continuity of dealers.

[114] Pendragon entered the German market in 1991 with the acquisition of the Jaguar dealer Autohaus Avalon in Frankfurt. By 2000 Pendragon had five Jaguar dealerships in Germany, but disposed of all of them in 2007/2008.

Who were the main competitors to Jaguar in the late 1980s?

It was the Mercedes S Class, and the 7 Series BMW. In the recession of the early 1990s Jaguar held its own against these, but the sales mix changed for both Mercedes and BMW. BMW's sales overall held up because they had the smaller 5 Series and 3 Series, and Mercedes because it had the smaller 190E.

Who was the driving force behind the changes in the early and mid 1980s? Was it Johnson, was it Putnam, was it Egan?

The initial briefing for the team when we had the original dealership was great. Everybody, the car cleaners, the lot, went along. We thought they could have the factory tour, and get them all excited. We took about twenty people. They gave us a briefing in a training room, and they were going to do the tour after that. Egan breezed in, giving everyone a bit of a "rah rah", and after that the Head of Training, who's name escapes me, said after Egan had left "That's the man we're all working for", and I thought "Crikey, this guy's really got everybody here...". You know, at that level the people in the set-up were in awe of him. You wonder how much of it was "Talk it and it will happen" as opposed to knowing how it's going to happen. I think a lot of the things that happened, happened because everybody intuitively thought it was right as opposed to it necessarily being the big strategic plan. Maybe there was a big strategic plan that someone had in a bottom drawer, but you tended not to think so. It was never rolled out to me. It was quite entrepreneurial I think for the size of business. They would have exchanges and certainly in the early days we were involved with them; they would make policy decisions around the table. It wasn't so much "we'll be back to in three months' time when we've done the research", it was actually "Yes, that makes sense, can we do it?". From our point of view as a retailer they used to relate to us with the Dealer Council. James Smillie[115] was the Chairman during most of the 1980s, and I took over from him. I remember one particular meeting where we talking about the XJ40. We were running out of steam on the thing – we'd got all sorts of product problems and things – and we talked about making a particular model. We were discussing could we have this specification, or that specification, and literally within two or three months the car was being sold. So, from an input point of view the factory was there listening to us, saying "What do you think will sell?", and that was totally different from what it had been before when you could have a red one, a blue one etc. There was an appetite there to listen to the retailers, which I must say is quite rare.

[115] James Smillie was Chairman of Stratstone, the leading Jaguar and Land Rover dealer, based in central London, acquired by Pendragon in 1992.

That is an entirely different story from the one I got from the States, where the factory didn't listen at all.

I think that right. We've got business out in the States and know a lot of the long-standing Jaguar dealers.[116] I think that's right. I think what you had, and you still have it today, in terms of Jaguar and Land Rover certainly, is that the American dealers are the most important dealers in the world, in their minds anyway. It's the biggest volume. It's not always been the most profitable place to sell cars, but they don't necessarily weigh that into their equation. They sell volume; therefore, that market is the most important. And I think it's fair to say that the products weren't tailored to the US market in the way that the US dealers, or the consumers, would have probably liked. The classic is cupholders - it took so long to get one designed in. It was "What do you mean by cupholders? Where do you put your saucer?" Culturally there was a difference. Having said that, product-wise it wasn't a bad fit for the States because of the natural characteristics of saloon cars in particular. It was a soft ride. They weren't fighting the same problems they could have been fighting with if it was a hard ride European product. So the product was a little bit more naturally tuned to the US market. Having said that, I do think it's probably right that the UK market did have a greater shout than the US market, and the US did more volume.

Can we talk about the XJ40, because this to me was the watershed for Jaguar in the 1980s.

Definitely, and for the retailers also. Absolutely! The car was launched, and everybody liked the look of the car: "Crikey, a great looking car! We'll have one". There were two engines – 2.9 litre and 3.6 litre. The 2.9 litre wouldn't really pull your hat off, and it had a few problems technically. The 3.6 litre was a good engine. Basically the car was reasonably sound, but you had a few problems again – technical problems. So from the quality point of view you look back, twenty years later, and wonder "Crikey, how did we used to get away with selling cars that weren't perfect?" But it was a rip-roaring success. In the early days in our dealerships, and by then we had got ourselves a big footprint in Jaguar, relatively we were the biggest dealer, but nowhere near as big as we got in subsequent times, we had more customers than we had cars, to the extent that we'd be buying cars from other dealers. So we'd place orders with other dealers for a brand new car. We'd buy the car at full list price and sell it as a used car at more than list price. That went on for about two and a half years. For two and a half years we didn't discount a car and in many respects if you wanted a car and were prepared to pay a £1,000 premium then you'd get one. So from a retailer point of view we had a situation where the demand just outstripped supply. And no matter what they did, because they were just a little factory, they couldn't spoil that. They couldn't spoil it for the retailers because they were making huge margins. They were making a huge margin because they didn't have to discount the car in the way manufacturers do today (by putting bonuses in). The customers loved it because they had a car that after a year they'd get their money back

[116] In 2000 Pendragon entered the US market when it acquired Bauer Jaguar, the third largest Jaguar dealer in the USA, located in California. At the time of this interview Pendragon had eight Jaguar dealerships in the USA, all located in southern California.

on. So everybody was winning in the sense that it was like a bubble-type market where, of course, it doesn't matter what you pay me as long as you get your money back you don't care. And that went on because the Americans came on tilt as well – it was a big success in the States. It's fair to say that they were probably the three most profitable years, relatively speaking, for the investment everybody had in in the history of the franchise. And it's never been as good since.

What about all the problems with the XJ40 though?

It was great, absolutely great because the customers loved you. The cars used to come in, particularly in the first winter, with their back ends literally stuck up in the air – a shock absorber problem. The shock absorbers would lock and the suspension would be up. The Jaguar dealers in the UK through the 1980s on the various surveys had the best customer service scores of any dealer network in the UK. The reason was that you had the opportunity to demonstrate how good you were. So when a customer came in with the car's back end stuck up, we'd seen it so many times before we knew exactly what it was. The service adviser would say "Crikey! Leave it with us and we'll see what we can do". They knew full well what it was. They'd fix it, turn it round, and the customer would think you're marvellous because you'd fixed this big problem. Problems are absolutely fantastic on cars, and as a car retailer we'd like the car manufacturers to put a problem in every car. Just tell us where it is and when it's going to go wrong and we'll give a customer service where the retention of those customers will be significantly greater than the most reliable product in the market because customers love somebody looking after them.

And you were getting all these revenues from warranties?

The warranty was huge, yes, but from their [Jaguar's] point of view a lot of that did back up on their supply base as well, because the days of the component manufacturers not being accountable had long gone, so I'm sure the shock absorber manufacturer, and people like that, would be getting those things back by the box load. But there were also technical fixes that were going on at the time. Some were recalls or retrofits, but from a customer point of view it didn't do as much damage as you'd believe because of the actual relationship with the dealers and the way the dealers were engaged in the whole process. Because we were making great money we could afford to spoil customers. If a customer came in with a problem on his car we'd give him a Jaguar to drive. When everybody was making lots of money you could afford to put it back into circulation. And so, a customer who had a problem with his car would go to the golf club and say "I've had a problem, but so-and-so have given me another Jaguar to drive".

Why did the problems with the XJ40 never get into the press?

I think they [Jaguar] were reactive in a positive sense. They did react to something when it went wrong. They were proactive in fixing stuff. So, if we had a list of vehicles, we'd have the vehicles in and they'd be sorted. I think they collaborated really well with the dealers. It was a collaborative effort because the more the reputation of the vehicle as an acceptable piece of kit went on everybody was going to win, including the customers.

So why didn't it work in the States?

I think the difference there would be that consumerism in America was ten years in advance of the UK, so you'd got things like lemon laws in the States which they have now which were all evolving at that period of time. Customers were very quality orientated, and weren't used to products that were more quirky. You're also talking about people [customers] in this market [the UK] who wanted Jaguar to win. There was a nationalistic aspect to it – customers wanted it to win. At the time if you think about the business profile of the business it was seen as a "Britain can compete, and, by the way, it can make some nice cars as well, and, by the way, it can export because the Queen said there's an award for exports". There was an air of optimism that the British car industry wasn't finished. And a lot of customers who'd been absolutely loyal had the opportunity to go down to the golf club and tell people. And from the business point of view, Egan was highly regarded as a business leader at the time, and his reputation was at its peak in that arena. So everybody wanted it to win. The Press wanted it to win. Customers wanted it to win. The dealers wanted it to win. You go to America and it was competing directly with everyone else. The fact that it was British would only appeal to a minority of consumers because, maybe, there was some connection in heritage terms, or something like that. But other than that, the car had to face up to the test in the same way as it would for everyone else, so if the air conditioning system didn't function properly in Arizona, the fact that you didn't need it in New York State didn't matter, the guy in Arizona screamed. So you had a situation whereby America has got everything – weather, good road, bad roads, you name it – and they stress tested it. I think the dealers did a good job at the time, from what I can gather – we subsequently bought some dealers who were there at the time. Notwithstanding the fact that the product wasn't as robust as American dealers would have liked, and notwithstanding the fact that the American dealers weren't listened to, there was a huge amount of brand empathy amongst those dealers, even today.

Would it surprise to learn, or were you aware, that by 1989 Egan was at his wit's end, and didn't know which way to turn?

Yeah. I would think that they would see that as external forces maybe. Was it currency orientated? Was it that they couldn't build cars at the right price to sell in America anymore?

The main problem seems to have been that the story about the quality had got out in the States and they lost their market. Talking about the XJ40, Martin Bennett told me "It actually cost me, I can honestly say, fifty percent of my Jaguar customers. The car was an absolute unmitigated disaster in terms of reliability, in terms of its systems", and Mike Beasley told me that "It had lots of design issues, and we spent a lot of time and effort in the late 1980s and early 1990s correcting those...We did not protect the customer well enough with XJ40, there's no question about that".

I think that's true. But I think that in this market place [the UK] they had the benefit of a retail network that was in much better shape to handle it. We'd been used to it. The other feature of the distribution network in the 1980s was that Land Rover was following a similar model in the sense of separation, and during the 1980s a lot of the dealers were Land Rover and Jaguar dealers, and that was true also in the USA. So again the dealers were dealing with a high stress product. But from a capability point of view disproportionately the back end of the business, service and parts, would be much bigger than the front end volume would justify. It must have cost them a fortune in warranties, but in fairness, they stood up to the problems and paid. But if they were making enough money, which they probably weren't, they couldn't get it back in product quick enough.

Transcript of the interview with John Grant on 19th January 1993.

What were the main issues for Ford when it arrived at Jaguar?

All the things that came together in Jaguar were a serious disappointment to Ford, but in terms of the physicals of the business everybody knew that Jaguar quality was crummy. The JD Power surveys in the States were already being published on the XJ40, current model XJ6, and that information was already available, and it was very bad. So we knew that the quality was bad. But there was a lot of anecdotal evidence that we had about Jaguar's manufacturing facilities which we got, for example, from the investment analysts that we spoke to in Ford. On one particular trip, US investment analysts were touring around Europe, and were visiting Ford of Europe as their last stop. We picked them up in the Ford of Europe plane from Birmingham airport where they had visited Jaguar the previous day, and all the way down in the aeroplane they were talking about the 'Dark Ages' that they had just witnessed the day before, and how astounding it was, and how they were all going to downgrade Jaguar as a result. Equally, there were a number of Ford people that had been into the Jaguar plants over the years and knew what they were like, so we knew that the manufacturing was awful, we knew the quality was awful, and those were most of the things that were talked about in the press thereafter.
To be completely frank, I think there were really two surprises. We at Ford had assumed that Jaguar had a product plan. That was the one they had talked to the investment analysts about, and which got written up in the analysts' reports, and which was the whole underpinning of the share price. That product plan was that the F-type, so-called Sports Car, was going to be introduced in late 1994 (it was a 1995 model year car), and thereafter that they would be doing a derivative of that sports car also to be a grand touring car, a replacement for the XJ-S. And that they would then be doing an updating a V12 version of the luxury saloon which was imminently about to be introduced in 1990, or 1991, and that they would presumably be doing a replacement of the saloon car in, we thought, probably about 1996. That is what we predicated our whole plan on; that they had the capability in place to deliver those products.
When we got there we found two things. First of all that the product plan didn't exist, and secondly that the management disciplines within Jaguar were appalling. There was no management system. There was the company, which by automotive company standards was a small, one would hope cohesive, centrally located, all in the same area, fairly simple company. Two products, all English speaking people, all based within a radius of about five miles of one another. It should have been a very cohesive management team, but it just wasn't . It was very divided. There had been very poor direction of it. There were all kinds of factions within the company, and there was no mechanism for bringing those factions together, and so there was no consensus about the directions they were going in. That was the second shock, that the management was really poor. But that was something that Ford knows how to fix, and that wasn't such a big problem.
The big problem, coming back to it, was the product. To be specific about that, the F-type, which analysts had been informed was going to be introduced in the 1994 calendar year, had been originally designed in 1981 for introduction, the original scheduled Job 1 date, in 1986. Maybe it was 1980 for introduction in 1986. Certainly the original Job 1 date was 1986. We arrived at the beginning of 1990 and the externally announced Job 1

date was 1994 but in fact everybody internally knew it hadn't a prayer of making it by 1994. It wasn't going to make it until 1995. So, there was a car that already had been on the drawing boards for ten years, and had got to the stage of having prototypes driving around, but no production engineering had been done. There was no team in place to deliver it. There was a little skunk works operation which had developed it to the prototype stage but it was not resourced to do the mainstream engineering. Jaguar had never done a product in less than eight years before, so, generously, it was at least five years away from production. The car was beautiful looking but it was already getting a bit old looking. Oh it was beautiful, but it was far too heavy as a result of which the performance wasn't good enough. The whole thing was based around the straight six engine and yet there was a new generation V8 engine on the stocks for introduction about a year after this car was first to be introduced, so it was going to be designed around a straight six engine and no work had been done at all on how the V8 would fit into it. All the resources the company had were going to have to be diverted to this programme to deliver it which means there was going to be no work done at all on the replacement for the saloon car which was the bread and butter of the company. So, in pursuit of this outdated sports car which was not going to be competitive, all the other programmes were going to die by neglect. So, it was a nonsense product programme, and the whole Jaguar strategy was built around this product plan. It was absolutely nuts! So we really had no option but to question whether or not the F-type could be made into an acceptable product. There were some serious reservations about whether it was the right product, and even if it was the right product whether it could be made into a competitive product. We couldn't afford to go in that direction because we had to look after the bread and butter business first, and the bread and butter business was that of keeping the luxury saloon car competitive, and it was rapidly getting to the point where it was not competitive, never mind the fact that its quality still stank. So a stop was put on all that. It took a couple of months to get at the truth of this, so it wasn't actually stopped until, having arrived in mid-January 1990, the end of March. We started a complete reinvention of the product plan, which is not the sort of thing you do overnight. In fact, the first iteration of the new product plan which we came up with was done by June 1990 following a record first quarter in that year for Jaguar, funnily enough.

The first three months that we got there was terrific because of record sales. Things were going really well. Then we had a succession of crises. All the external factors went sour: the Dollar collapsed; the Gulf War; the luxury tax was introduced in the States; benefit in kind tax in the UK was getting increasingly penal; the UK market fell off a cliff. All these things happened over the space of a few months. So we went from having a terrific first three months, when everything was going swimmingly, to an absolutely catastrophic set of external circumstances which were way beyond, certainly in total, anything we thought possible because we had come into this thing agreeing with the general economic consensus that there was going to be a very slight and short-lived recession in the world economies, and that would last about eighteen months, and everybody would resume trend and off we would go. So at this stage we were at the point of having a product plan that was a nonsense, and nothing to put in its place for the time being, world economies that were falling apart, and an exchange rate that had gone to hell. It all added up to a rather seriously lower set of financial results than we had been anticipating. Because the financial results were deteriorating the first product plan that we put together in June

1990 didn't look achievable six months later because it required too much money, and the cash flow was just not there to support it. So, we had to revisit that product plan and one year later came up with a heavily revised plan, one which probably in some respects was better. More tough decisions, but it was still a good product plan and the only trouble was it had taken a year and a half to get there. This was the middle of 1991. An awful lot of investigation of alternatives had gone on during that period. But where we ended up was with a product plan that had the right priorities. We had an affordable product plan rather than affordable with quotes around it because Jaguar on its own couldn't have afforded anything at this stage. If Jaguar had been independent everything would have had to stop since it was haemorrhaging cash by this point, and it could not have afforded to spend a brass ha'penny on anything. The Ford management interrogated this pretty heavily because they were not about to throw a billion pounds into something, or commit to a product plan that was going to require a billion pounds of investment, unless they had a reasonable comfort that we were going to be able to dig ourselves out of this hole and have a profitable future. So there were a series of reviews with ourselves within Jaguar, and, obviously, then with the Ford management to come up with a plan that everybody thought was a sensible plan for Jaguar. Unfortunately, each time we did it the world got worst and so it got tougher and tougher each time. So, all that was going on. The product plan that we ended up with is the one that has been fairly well publicised in the automotive press which involves first of all the much delayed introduction of the V12 in the saloon.

But first I should go back to the most important short term thing when we arrived at Jaguar, which was to fix the quality, because without fixing the quality there was never going to be any future at all. The future, in fact, was rapidly disappearing in a cloud of warranty claims because the quality had just been catastrophic. So, fixing the quality was the absolute prerequisite for any new product programmes, but on the assumptions that we were going to make a lot of progress with that, the product plan we came up with was: implement the face lift on the XJ-S, which has been done, and that was a Jaguar programme that it was too late to make any significant changes to except to make sure it was executed properly, and in fact it got delayed by six months to make sure it was executed properly, and was done much better than Jaguar would have been able to do on its own; make some minor changes to the XJ40 which have just been introduced in the 1993 model year and which included, very importantly for the US, a year's acceleration, in fact two years' acceleration of the introduction of air bags by Jaguar. They were miles behind on that, and that was accelerated by two years; an eighteen month acceleration putting the six cylinder engine into the XJ-S convertible because we were convinced by time we arrived the V12 was going to die and the XJ-S in the States was completely dependent on the V12. All convertible XJ-Ss, which was the big money spinner, believe it or not, were all V12s. There was no straight six convertible, it had never been engineered, so we accelerated the six cylinder engine into the convertible. That was done as a crash programme, very successfully. We launched the four litre XJ-S coupe as well in the States. The V12 has now been withdrawn from the States for the time being. So all those things have now been done. The V12 going into the saloon car was again, like all Jaguar programmes, slipping and slipping and slipping, and slipped for about five successive years, and had never got there. A lot of work had been done on it but the refinement targets just had not been met and the performance targets really had not been

met either, as a result of which was decided on a very late change of direction because the product with the old 5.3 litre V12 was not saleable at the sort of price premium that it should have commanded, and needed to command, over the four litre. So, the late change was to use the experience of having had the Jaguar Sport six litre V12 which was a much more attractive proposition and having evaluated the XJ40 with the Jaguar Sport six litre engine in it we said this is really what we need. Unfortunately, the Jaguar Sport engine for various reasons was not suitable for even relatively high volume production and it had to be re-engineered to make it suitable for high volume production, or high volume by Jaguar standards, and so that meant another rush programme to switch from the 5.3 litre to a new six litre V12 engine. That is going to be introduced in March 1993 at Geneva and is a stunning proposition. It's a terrific product, and really is a legitimate competitor for the 500SE Mercedes for example, not the 600SE, but certainly the 500SE Mercedes and is just a very, very attractive vehicle, maybe not terribly socially acceptable, but for somebody who wants that kind of vehicle it's a terrific car to drive. So that was an improvement there. The six litre V12 engine will be going into the XJ-S too about three months later, and that will give the XJ-S V12 another lease of life. So, the XJS range will be greatly strengthened with the four litre being generally recognised as a pretty good iteration of the XJ-S, and this new V12 giving it another lease of life at the top end even though it may not be the best economic climate for that kind of car. So those are all the minor things.

The real guts of the product programme comes in thereafter with a re-skin basically of, and a very heavy revision over everything else in, the XJ40, so the XJ40 will be presented as the X300 as a completely new vehicle to all intents and purposes. It will have a new skin, new interior, new air conditioning, new seats, new features, heavily revised engine for more performance and economy, better emissions, and improvement throughout the car. It will virtually be a new car and with much better fits and finishes in the body as well. So that's step one in the new product programme. Of the new generation product the X300 is the first one with the revised version of the AJ6 engine. Eighteen months later there will be a single car that will replace both the XJ-S and the stillborn F-type. In other words it will be a car that will have the XJ-S attraction of refinement, sophistication and elegance, combined with sex appeal. I don't think I'd go that far, but that's the idea. That car will be the first to have the new V8 engine. That will be an all-new car. There will be a fair amount of commonality with the X300 in terms of components and so on, and that should be very stunning and do a lot for Jaguar's image. And having refreshed the core business of this luxury car, Jaguar can turn its attention to doing the smaller car that everybody wants it to do, and which is the real thing that Jaguar needs to give it a more sustainable volume base. That smaller car is the X200. At the time I left there had been a lot of work done on defining what it should be, but not really on defining how to get there, and that's a major task. Jaguar doesn't really have the resources itself to support three independent product lines. It doesn't have the engineering resources, doesn't really have the financial resources. So there is likely to be a fairly high degree of sharing of components with Ford on that smaller car, but everybody from the top down in Ford Motor Company, down to the bottom of Jaguar is absolutely convinced that there must be no compromise in the Jaguariness of that product. That's going to be a difficult balancing act to come up with that in a way that

doesn't compromise Jaguar values, is supportable, is cost competitive and all that stuff, and very few decisions have been taken on that yet.

What sort of volumes would one be looking at? There have been comments by Ford about getting it up to 100,000 or 200,000 a year.

Ford came in at a time when Jaguar was coming off a sort of 50,000ish level of production. It was thought Jaguar had the potential to be in the range of about 150,000 to 180,000. Those aspirations have been cut back very severely in the light of what has happened in the market place, and have gone down from 50,000 to 24,000 or even less this year, which is terrible. But they're still talking in terms of getting back up to about 100,000 when they get that product range fully introduced.

Could Ford continue at Browns Lane if it's going to make any meaningful increase in production?

You could actually because early on we did some capacity analysis of what could be done with the existing plants and it was felt that with the existing plants you could actually get 180,000 out of those existing plants. It might not be the way you would chose to do it but it was possible to do it. Certainly it is possible to double the production at Browns Lane by a little bit of reprocessing of plant and changing the shift patterns. Amazingly, there's actually a lot of space at Browns Lane; it's just not used very well.

But aren't there access problems?

Yes, that's right, there are, which is one of the reasons a new road was built at the back of it which has improved the access greatly which means the access problem has gone away really. That's really an open book. Of course what has happened is that there was a debate on where the new engine should be made. It was very clear it shouldn't be made at Radford, which was an antique plant in the middle of a housing estate and not a very good plant. That it should be built at a new plant really was pretty clear and the major options were either a greenfield site, or a greenfield plant, more accurately, on the same site as the Whitley engineering centre which could have used the Radford workforce because they're only two or three miles away, or manufacturing at Bridgend. At the end of the day Bridgend won because there was the space available, there was the expertise, and there were all the support functions available. It was lower investment, and a plant that had a proven capability to deliver high quality. It will be done in a dedicated facility at Bridgend with all the Ford manufacturing disciplines on it. But the design of the engine is being controlled by Jaguar. It is being done by Jaguar. It's not being compromised in any way. It will be done to Jaguar specified tolerances which will be tighter than any of the tolerances specified by a Ford engine as part of getting the refinement in it. So, I think that's come up with the right answer. It's an uncompromised product made in a first class plant in the UK. The engines will start coming out of Bridgend at the end of 1995, but Radford will keep going beyond then because it will carry on making some AJ6s, and we don't know whether the V12 will still be alive then or not, maybe not. And Radford also makes a lot of chassis components as well

From what you know was it true that they actually did get the quality right on the Series III, and what went wrong on the XJ40?

You've got to go back to the early 1980s, to about 1980-81, which was when Jaguar was struggling with things like they couldn't paint cars because they'd relocated. They'd established a new paint facility which didn't work, and that was at the body plant at Castle Bromwich. They had this fancy new paint facility which didn't work. The paint would fall off the cars. You couldn't get the paint to stick so they had to ship, as a temporary expedient to get cars into production, the bodies from Castle Bromwich back to Browns Lane to put them through the repair paint facility they had at Browns Lane where they could only paint them in three colours which was red, yellow, and something else. That was the shape Jaguar was in in the early 1980s. It was just an absolute nightmare. Everything was wrong with the cars. Nothing would fit. It was terrible. They did make a lot of progress from those times. They got the paint facility up and working. They actually got to the point of having very good paint quality. A very good paint finish. But most of the rest of it was bullshit.

The quality of the old Series III was never very good but also when they introduced the XJ40, the new generation XJ6, the quality went sharply downwards having got to a point where by British standards the Series III was acceptable. By international standards it really wasn't a strong competitor, but because it was so beautiful-looking people forgave it. It was a very unique car. It had this fantastic ride, it had this lovely silky engine, particularly in the V12, and the car looked fabulous. It was unique and everybody fell in love with it so they forgave its quirks. But it had lots of quality problems when you look. They didn't have very good data so they didn't really know what had happened, but it was not very good.

When the XJ40 was introduced it was unbelievable. Now there are good reasons for that. It's easy to be critical, but when Jaguar started engineering the XJ40 at the same time it was doing the XJ41, the F-type. It had 230 engineers back in the early 1980s. By the time the XJ40 was launched the company had 430 engineers; that was in the Autumn of 1986. By the time Ford arrived, say at the end of 1989, it had 830 engineers, and one year later it had 1,030 engineers. To cut a long story short, 230 or 430 engineers are not enough to be able to do a car with the sophistication of the XJ40. It can't be done, never mind looking after sustaining the existing products that always require some on-going engineering work as well. So Jaguar actually performed a miracle by getting the XJ40 into production with the resources that it had available. It was inevitable with those resources that there were going to be certain quaint aspects to the car which manifested themselves in just appalling quality. It was terrible in virtually every respect.

The disappointing thing was that three years later very little had been done to address those quality problems. Ford had thought they knew, based on the quality statistics that were available, that the quality of the XJ40 was awful. They had expected that some progress would have been made in resolving it three years after launch. But, in fact, very little had been accomplished. The good news though is that the basic design of the car was very competent, and it is very sophisticated in a number of ways. The body design was done by British Leyland, but the overall suspension and vehicular engineering was done by Jaguar, and it's actually a very competent vehicle if you can sort out the irritations that have destroyed its reputation. There were some horror stories, though,

from customers who had cars. One car in the States had been into the dealership on 50 or 60 separate occasions for quality problems in the space of a couple of years, and there were cars that were going in virtually every week to have something fixed. Some of the customers were a little pissed off. So quality was without question the number one issue. Great expectations had been built up with the dealer body, and therefore with the customers that, riding on this improved image during the mid 1980s, this new Jaguar was going to be wonderful. It was going to be the quality Jaguar, quality designed, from the start tested to the Moon and back. It was going to be wonderful. So, expectations had been built up, and the car was awful. Word really started to get around that Jaguar was bad news. So, that was a terrible mountain for Jaguar to have to climb to recover its image: first of all to fix the reality, secondly to change the perception of quality which had really collapsed, particularly in the States, also in some other markets, less so in the UK where people are not so fussy. They don't have the statistics available in the UK, either, that are available in the States. So, quality was absolutely the number one most urgent priority fix.

The first thing Ford, or the Ford people, did was to introduce proper measurement disciplines to find out, to get some reliable quantitative measurement of what the problems were, and some analysis of what the problems were, so that the engineers and the manufacturing people could start working on what it was they had to fix, and focus on the priorities. There was some information available that wasn't very good, and it wasn't helpful to the engineers because it didn't break it down into component detail. So, the first thing that was put in place most quickly was a new end of production line quality assessment system. Jaguar had one, but it was not honest. Things they didn't know how to fix they didn't count. So there was a new Ford system of quality measurement put in which is consistent in all Ford plants around the world, and it also gave them a benchmark to compare against Lincoln Continentals, Ford Scorpios or other things. Benchmarking is a great tool to beat people with or to measure yourself against. This thing, the Uniform Product Assessment System, UPAS as it's commonly known, is a system Ford uses around the world. Jaguar established new thresholds for how high the numbers could be. Admittedly the Jaguar product is more complex, therefore there are more things that can go wrong, so you would expect scores to be higher than they are with a Fiesta, for example, which has very few parts. Nevertheless, on a Ford Scorpio built in Germany you would expect a UPAS score, which measures the demerit points expressed in terms of per 100 vehicles, in the range of 250-300 points. The problems are rated according to severity on a scale of not much for insignificant problems, a modest score for things that are not important but that the customer would notice, and a bigger weighting for things that the customer would complain about, measured in terms of customer perception. So, a Ford Scorpio would be 250-300, a Lincoln Continental maybe 300-350. Jaguar was coming out with scores of about 2,500, whether it was an XJ-S or an XJ40. The old Series III, which was still being manufactured, was the best, it was better quality than the other two cars, but it was still up around the 2,000 mark. It was not very good. But this was just a measure of quality as perceived by the customer in the showroom if you like, nothing to do with durability which is measured on a different basis. But just in terms of visible items, things you would determine on a test drive like squeaks and rattles, things that are working or not working; on those measures the quality was ten times worst than it should have been and about ten times worst than the best in

class. Mercedes was the best in class, and it was about ten times worst than a comparable Mercedes, eight to ten times! So it wasn't very good I think you could sum that up by saying. Two years later, which was about the time I left Jaguar, it had got down to about 450 and it's now down to about 400 I'm told. So, it has been improved by 80% roughly. The number of problems have reduced by 80% so they are four fifths of the way to eliminating them completely. Obviously, the lower you get, the more difficult it gets, but they've made huge progress and it's now at the level at around 400. It is at a level that is comparable to BMW, for example, comparable to Lexus in terms of the quality as I've just described it, and it is no longer a discriminator in reality. At the same time, other quality measures were being developed, warranty being an important one. The warranty system didn't do any analysis, so a new warranty system had to be put in place. There were some customer satisfaction surveys going on and those were tightened up. So there's a lot of feedback now that Jaguar has available. Warranty numbers were horrendous. They are now making quite dramatic improvements are being experienced in warranty as well.

What sort of warranty numbers are we talking about when Ford took over?

Lets just say they were very high. There was an inversion we used to make fun of between warranty costs and marketing costs at Ford. Warranty costs at Ford would typically run at, say, 2% of revenue and marketing costs at closer to 9 or 10% of revenue broadly across Europe. Jaguar got it the other way round. Of course, the evidence of how far Jaguar has progressed on that is that they've now been forced to go to four years warranty in the States. At the time they introduced the XJ40 they went from one year warranty in the States to three years, which was actually leading the charge on that at the time. It was very radical, and very expensive as it turned out. They've now gone to four years in the States to be fully competitive, to catch up. They did that a year ago. I think it was for the 1992 model year, but elsewhere, and in all the European markets, they again decided to lead the charge and go from one to three years as standard warranty, which is part of having improved the realities, and to (a) improve the perception (b) relieve the customers of the worry about unreliability and (c) to do really what is right to say that there is no reason for the customer to have to pay for things that shouldn't go wrong anyway. So that's been a big commitment by Jaguar to do that, but they feel they can now afford to do it.

On quality, where was the main problem?

It was lack of discipline throughout the whole process, from the engineering process, from the integration of manufacturing and engineering, from the quality disciplines on the supplier, from the launch disciplines of actually launching the product, and all the planning, and the planning that goes behind the launch process. It was all of that plus it was lousy discipline on the shop floor. It wasn't lack of skill or commitment by the people on the shop floor, it was lack of manufacturing discipline. It was paying lip service to something as simple as statistical process control. People said they were doing it but you'd walk around the factory and you'd find a statistical process control chart that hadn't been filled in for three months. The quality measurement tools were not there, or if

they were there they were not being applied. There was just a total lack of discipline throughout every level you looked at. Lousy housekeeping in the plants. The plants were dirty, disorganised, poor materials handling, everything. Every possible thing you could do wrong was done wrong. The quality was wrong. So, the basic attack was (a) to do the measurement (b) to get the disciplines into the manufacturing (c) to get the engineering people recognising that quality was their first priority. We had to get the numbers to analyse what the issues were and then to assign responsibilities for fixing those issues to specific individuals or task forces. It required big organisational change to make that happen, setting up both quality teams with responsibility for eighteen different systems around a vehicle so that there were eighteen quality teams; one responsible for steering, for example, one responsible for squeaks and rattles, etc. Those task forces were given the responsibility for addressing each of those issues, and it started to work, and actually started to yield enormous results quite quickly.

But what about the Quality Circles that the old management had introduced and which they claimed were working effectively?

That is sheer nonsense. There were oodles of anecdotes from the shop floor. Bill Hayden, who had an awful lot to do with introducing these quality disciplines, was very good at going around the shop floor and talking to the guys on the shopfloor. There had been one of the communication sessions given to all the employees which all the directors participated in, and Bill Hayden was standing up talking about what things we were going to fix on quality and how bad it had been and why it had been so bad and what we were going to do to fix it, and some chap stood up afterwards and said "I've heard all this before. I bet you won't come and see my problems on the production line. I'm being asked to fit parts that won't fit". The next morning, first thing, Bill Hayden was down in the line with manufacturing management at this guy's station saying "You told me last night I wouldn't come and see what your problem was. Could you show me please?" This guy was putting a plastic wheel arch wire which was pre-drilled to match up with the pre-drilled holes in the bodywork. But they didn't match up, and the part was too big, so he had to bend it in a way that it was not designed to be bent to make it fit, and then he had to get a drill and drill holes through the painted bodywork, which was an absolute criminal act - you don't drill holes through painted bodywork because it's a guaranteed rust problem. And, he was not only drilling holes through painted bodywork, he was having to drill them blind - up through the wheel arch, and he knew that there were wires on the other side. And he said 'I can't see, I can't see if I'm drilling through the wires but I have to drill the thing to make it fit. I've been complaining about this since the car was introduced in 1986, but nothing's been done about it. I've complained 'til I'm blue in the face. Nobody will pay any attention'. He hated having to do it, he knew he was doing the wrong thing, but he'd been given no option. There were countless issues like that. Quality Circles my ass!

Jaguar had a reputation for marketing. That is where the effort went. That is where the great success was. Yet, you've said that as a proportion their marketing expenditure was a fraction of what you'd find in Ford. Why was there so little expenditure at Jaguar?

Because it didn't have to be as high as in Ford. This is something I would give Jaguar a lot of credit for. I think they've done an outstanding job on their marketing, on their image, and they've been in the forefront on a number of things that the volume manufacturers have now picked up on. In particular, particularly in the States, particularly in the UK, and increasingly in the European countries as well, they adopted a radical approach to dealer representation and done a hell of a job on it. It was very bold. They started in the United States where all their dealerships used to be shared. There were far too many of them. It was very low throughput per dealership and they decided in the mid 1980s that they had to aim for solus representation, dedicated Jaguar outlets, and to do that they had to have many fewer of them because otherwise they wouldn't be viable. So they reduced the number of dealerships in a legal climate which was virtually impossible to do. They did it, just railroaded it through, reduced the number of dealer outlets to about a quarter of what they had been, and persuaded the dealers to invest enormous amounts of money in new facilities which in most cases were pretty smart facilities. So this was a tremendous upgrading of the dealer image. They ended up with very good quality dealers. They got rid of all the bad ones, ended up with the good ones, and actually had a tremendously strong dealer network in the States. They did the same thing in the UK. They got a very strong dealer network in the UK, and have even done it in some of the very small countries in Europe. Belgium and the Netherlands, for example, were superb. Germany was still in the Dark Ages, they hadn't done anything there. France was somewhere in-between. So, in general their distribution, their marketing at the sharp end, had worked pretty well. They had the foresight to set up in Japan through a joint venture. They did that very well, and that had started to work successfully as well. So they had done some good things on having a high image and high quality dealerships, and those dealerships in fact had helped Jaguar survive and compensated to some extent for this awful vehicle quality. The dealers had done an outstanding job in compensating for that. The other thing they had done extremely well was that they had a tremendous high quality parts distribution capability - very good performance on that. In the UK they were the best of any vehicle manufacturer by far. They had guaranteed overnight delivery for any parts ordered by up to six o'clock in the evening. They guaranteed they'd be there by the start of business the next morning, which was pretty stunning. It worked pretty well.

But they seem to have fallen down quite a few times regarding market intelligence and marketing planning.

Yes, they were very introverted. There was very little awareness of what the competition was up to. When we, Ford, first went to talk to them back in 1988, Ford was clearly aware that the Japanese were coming into the luxury segment. We knew they were going to do it well and Ford's view was that Jaguar couldn't tackle it on their own and they needed help. That was the opening thrust. John Egan was either a very good actor or very

naïve, we thought at the time, because he just refused to recognise that the Japanese could in any way challenge Jaguar. With hindsight I think it was not so much the fact that he was a good actor but that Jaguar really had not recognised what could happen. They had very little analysis capability. They didn't have an attitude that was receptive to analysing things. When we got there, there was a lot of opinion being expressed by management but virtually no analysis to back up the opinion. When the analysis was asked for and subsequently delivered fifty per cent of the time the opinions were dead wrong.

How accurate was the accounting in the 1980s? Did costs get out of control?

I don't know, because by the time we got there the accounting was actually in reasonably good shape. The technical book-keeping was in good shape. The control over costs was not, the planning of costs was absolutely not, the ability to control the costs of the new model programme was non existent. In fact, the ability to control anything on the new model programme was virtually non existent, whether it was cost, or investment, or timing, or content, or achievement of objectives, or whatever. That's all been fixed, hopefully. I think the one thing they probably did have a good handle on was what the impact of Dollar fluctuations was. They certainly did have a very good feel for it by the time we arrived and in fact that's very easily calculated, so they should have been able to analyse that very easily. I think that probably costs had got out of control. It always surprised me that the share price had ever got up to the heights it went up to because it seemed to me the whole lot was built at that particular time on currency. I guess it was February 1987 when the share price peaked at over 600p[117], and it actually started to go down before you got to October 1987. It never had any right to be up at 600p because all that was built on Dollar strength. Profits were built to a large extent on Dollar strength during the mid 1980s, and a bit of volume recovery. The Dollar strength certainly was not sustainable and there was nothing else going on I didn't analyse in detail at the time at a fairly superficial level, but it never seemed to me that there was a sustainable strong business underneath. It didn't take a lot of science to look at Jaguar's volume and facilities, and the way they did business, and their productivity, to conclude that they were not competitive in cost terms, and anybody coming from a Ford background would say that if you're not competitive in cost terms then watch out. And that was certainly the situation. Productivity was another whole issue. At the end of 1989 Jaguar was still producing about four cars per man if you take the total workforce, which by any measure you care to use was in the Dark Ages, and of course it got worse before it got better. It does have plans in place which are being gradually executed to get that up to a competitive level, and even with the volume collapsing during 1991 labour productivity improved by 23% and the plan for 1992 was for 25% on top of that. So that was a 50% productivity improvement in two years in a period of declining volume.[118] I'm talking about factory productivity now for those improvements. A lot of people were being taken out, unfortunately, to make that happen, but that was very necessary, and even with a 50% improvement they're still way behind where they need to get to.

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[117] The Jaguar share price was 627p on 27 February 1987.

[118] Section 6.6 in the main text reveals productivity at 3.89 vehicles in 1989 (based on the total numbers employed), falling to 3.42 vehicles in 1990, and 1.87 vehicles in 1991, but the significant reductions in manpower enabled an improvement to 2.77 vehicles in 1992 despite a further fall in output.

There didn't seem to be much Capital Expenditure put into Browns Lane.

There was nothing major. There were bits and pieces. There were some new testing facilities, testing the electrical stuff, but there was no major expenditure at Browns Lane that I can think of. There was obviously expenditure put in to actually launch the XJ40 there but there was no substantial investment in new equipment, or substantial rearrangement of the plant, or anything of that nature, that comes to mind.

So where was the Capital Expenditure applied?

A lot went into the engineering centre. There was a chunk that went into Castle Bromwich, in particular for the Robogate which was a bit of new-fangled technology that was, unfortunately, completely misguided because the Robogate was something that was designed to provide flexibility so you could do a lot of body styles through one fixture, through one piece of kit, and the sad thing was they ended up with only one body style, so they didn't need any flexibility at all. So all the money they spent for flexibility was a waste. It was done when they had the long wheel base car, for example, in the product plan which got axed by the way to make room for the XJ41 (the F-type). I really don't know where all the rest of it went. I never bothered to look back to see.

What was the labour relations situation like when Ford got there?

There was a fair amount of communication going on but labour relations were appalling. Jaguar when it was privatised had inherited a fairly good agreement from British Leyland, you will recall. Following its "Red Robbo days" British Leyland had negotiated its Blue Newspaper agreement which was pretty good. It was in the forefront of the automotive manufacturing industry at the time, and had a lot of good things in it. But Jaguar, having been privatised, never had the muscle to stand up to the unions and enforce it because at the time they needed the volume, their sales were going up, and they couldn't jeopardise their production, so they had to roll over on that one. Later on, they were trying to introduce the new car and they couldn't jeopardise the new launch so they had to roll over there also. Gradually Jaguar had gone backwards, and backwards, and backwards. Every time they were tested they gave way. They were being tested all the time, giving way all the time. So, by the end of 1989 labour relations were at the stage that basically reflected the worst days of the 1960s. Everything that was bad about working practices was in place at Jaguar. Things like working up the line to get your quota finished before the end of the shift so you could knock off early, and that is terrible, it has a terrible impact on quality and productivity and everything. Total demarcations. There were appalling demarcations. Management had no control over overtime. The overtime rota was determined by the shop stewards. There was a whole list of labour relations practices that were in the Dark Ages, and the strike record was appalling. I can't remember the numbers but there were very few days that were strike free, and that had to tackled up front. It was taken head-on. Fortunately there was a labour contract, two year contract coming up for renewal in November 1990, and Jaguar as its negotiating objective decided there were 12 or 13 working practices that had to be eliminated. It was essential for Jaguar's survival that they were eliminated, they were not negotiable, so we

had to go in on the premise that we were going to clean all that up and we were going to do it all at once because there really was no alternative. So it was a question of what we had to do to get agreement for that. What the unions wanted was a shorter working week, what the workers wanted was more money. The shorter working week was topical at the time. The major manufacturers had volunteered to talk about it, but hadn't. A shorter working week didn't actually cost Jaguar anything because we had capacity coming out of our ears anyway. We didn't need it near term, and in the long term it was going to get dragged in at the tail end, so it would be better to use it as a bargaining counter. It was a question of balancing those three things. The unions were very co-operative, agreed that Jaguar needed all these things, accepted that they were in the Dark Ages, and were quite co-operative in getting the agreement of everybody in the workforce to those working practice changes. They got a shorter working week in exchange, and the workforce got an eight per cent settlement, I think, which was about the going rate at the time and on top of that got a four per cent productivity allowance which was to be payable on a signed agreement by every member of the workforce. At every plant they accepted these working practice changes. The general principles were agreed at national level, the application of those principles to each plant was worked through in detail and there was a 47-page document or something that was issued to every member of the workforce which was the basis of the agreement. Only when every, literally every, member of the workforce had signed up was that four per cent payable. That was scheduled to happen by the end of March but it happened one month earlier and that was the whole basis of the productivity improvements we talked about earlier. The strike record in the previous twelve months having been single figures of days that were free of disruption, in the next twelve months there was no production lost due to disruption at all. It absolutely transformed the labour relations, underpinned of course by the fact that it was a pretty gloomy time when people were getting made redundant and all the rest of it, but the labour relations had been absolutely transformed by those actions.

How much of the labour relations problem was that Jaguar had become subjugated to British Leyland?

Our perception was that Jaguar had gone backwards subsequent to privatisation. Actually, one of the curious things was the personal relationships with the people in Jaguar. It was a very friendly company. There was a very open dialogue with the people on the shop floor, even though there was all this disruption going on. Individual relationships were fine. It was a very nice company to work in from that respect. There was a great spirit about the company, but it was all being channelled in the wrong direction. There was a great desire actually for the company to perform better but the people on the shopfloor were very frustrated because they were not being given the tools to do the job they wanted to do.

How good was the management/worker relationship?

There was a lack of trust, there was a lack of belief in the management because they wouldn't listen, they wouldn't respond when people complained. When they complained about legitimate concerns they had they didn't get any reaction; this prejudices the view about the management. I think that was rampant.

Were the directors of Jaguar, particularly from the beginning of 1988 onwards, not living in the real world?

You have to assume that that's the case, yes. There was an interesting post mortem that we had on the XJ41, the F-type, and we had it eighteen months after Ford had taken over the business. The reason we had it was that we were examining the processes of how we developed new products and how do we make sure we don't do the things that Jaguar had done with the XJ41 in terms of the factions, in terms of a lot of people in the company knowing it was going in the wrong direction but yet the management continued down that direction, apparently blinded. Was information getting fed up to the management, and if it was getting fed through why weren't the management responding to it? It actually became clear from that post mortem that the information had been fed through to the board of directors, at least to the executive group, that they were being told at regular intervals that the objectives that were being set could not be met; that there were not resources in place to achieve those objectives; that the project was impossible. But the message was basically 'Go away and try harder!' They were being told by the guy who was running the project that he couldn't deliver it. They were being told that. There were no secrets. We saw the reports that had been presented that said it can't be done, that we're missing all the targets, and here's the reasons why. And yet, they carried on blindfold, jettisoning other products, like the long wheel base XJ40, to support this product which they were told was a no hoper. They got other people involved, they set up another group to look why this wasn't working, did various other things, but I think they didn't know how to tackle the issues to be honest. It wasn't a question of malicious intent, but they were certainly representing things to the City about this product that they were being told at the same time could not be done.

Isn't £1.6billion an awful lot of money to pay for a brand name?

It's not just a brand name, it's a brand name with an existing model range which actually does have some potential when the economies recover, a very strong distribution network which is in place, and quite a lot of manufacturing capacity which is in place. It may not be perfect but it is there, and against a comparison with Lexus which is reputed to have spent $4billion or $5billion on launching the LS400. Now Lexus has been a roaring success. I don't know how much Infiniti has spent launching the Infiniti range. It's probably rather less than Lexus spent, but it's still big bucks. So you're in a big bucks business if you want to have a luxury brand. The strategy behind it for Ford was very clear. Ford had wanted, for several years it had decided it needed, to be more strongly represented in what it saw as the growth segments of the automotive business. In Europe it saw the growth segments as very small cars like the Peugeot 106, although it wasn't

sure it could make money at those, as the MPV [Multi Purpose Vehicle] market, which it is now tackling with the joint venture with VW, as utility vehicles as a niche sector which it is tackling with the joint venture with Nissan, and luxury cars. Those are the sectors it saw as growth sectors. The rest of the market growth trends were going to be dull for the foreseeable future. It looked at various ways of getting into the luxury market, and this happened to coincide with the US view which was that the luxury car business was going to continue to evolve in the direction of what they termed in the States the functional luxury vehicles; that is, the European import type things and it was going to swing away from traditional luxury cars, Cadillacs, Lincolns, towards these import type vehicles. Ford wasn't convinced that Lincoln was going to be able to bridge that gap properly in the States and therefore saw room for an import type brand, and that complemented what they saw as an opportunity, and, in fact, a need, in Europe. They had looked at various strategies to fill that primarily European need. They'd looked at Alfa Romeo first of all as a middle market brand, recognising that Ford in the States has got Ford, Mercury, Lincoln. In Europe they just had Ford. Alfa Romeo didn't work out. They looked at various other things. They looked at Saab which was about to work out, but Jaguar came along. Saab again would have been a middle market brand with a heavy sharing of components, as Alfa Romeo would have had, with the Ford models. Jaguar was seen as a further niche up-market but equally interesting in many ways because it had a terrific brand name, had a good distribution network, had, it was thought, a reasonably strong engineering capability, but which did turn out to be true by the way.

Ford, having looked at the luxury markets, had concluded it didn't really have the capability or the style to be able to develop a true competitor in those markets. It didn't have the market image to do it credibly either, whereas the Japanese market image was marching steadily uphill and it was fairly easy for them to make that transition to the next niche up based on the very strong image they'd established for their volume cars. Ford had an eighty year tradition of having a blue collar image and couldn't suddenly change that credibly by throwing a luxury car into the equation. They felt it either had to be done through joint venture, but couldn't find a joint venture partner that worked, or in which case it had to be done through acquisition. It was felt even at £1.6billion, and they knew very well it was expensive, it was justifiable only on the basis that Ford had a vision based on a growing luxury car segment, a vision of what Ford was going to be able to do with the Jaguar brand in time, and it actually came down in the final discussion meeting in Dearborn[119], the one where the decision was made, that it would only ever generate a return if we're prepared to back our vision. That was not the sort of language that Ford used, it was very unlikely language for Ford to speak in that way. It was basically Don Petersen, the then Chairman, shortly before he got ousted, making the decision to back the vision, clearly in the knowledge that it was a long term deal. Even then, that was based on a more rosy view of the world in the near term than has turned out to be the case.

[119] Ford World Headquarters was located at Dearborn, Michigan.

To what extent was it motivated by the fact that Jaguar was supposed to be negotiating a deal with General Motors.

That was certainly part of it. The decision was whether to go for Saab, the deal being the one that GM got, but cheaper, or Jaguar, or both. Ford had already agreed the Saab deal. Ford had talked to Jaguar in 1988, looking for a basis for co-operation, but Egan was frosty. The idea was to take 15% of Jaguar, with agreement. Ford had started to look at Jaguar in early 1988, but was only interested if it could get Jaguar's agreement on some kind of co-operation. Ford felt it had only a few days. The decision was emotional, not analytical.

You've intimated that Egan gave Ford a very frosty reception yet we know he was talking to Toyota, for example, and he was certainly talking to General Motors. Why didn't he seem so keen on Ford?

He subsequently swung around. When he had the deal done he was quite supportive of it. I think it was probably a negotiating position to a certain extent. Perhaps he felt it was too early, that he felt that with us coming in when share price was 247p, after it had been up at over 600p or whatever he probably felt at that at that starting price, it was too early and he didn't want to do any deals at that price. I don't know. That's speculation on my part. As it subsequently transpired, we didn't know this at the time, they were a long way from doing anything with GM that was sensible for Jaguar. It was generally known that they were talking about doing a Jaguar off the Senator platform to be manufactured at Rüsselsheim, and it was not a sensible financial transaction for Jaguar at the time. They hadn't come to a sensible product proposition, but they were a million miles away from a sensible financial decision, and the discussions had from time to time been quite acrimonious between GM and Jaguar. So I'm not sure if the GM deal would ever have got done anyway as it transpired.

How was John Edwards in relation to John Egan?

He was very loyal and Egan trusted him a lot. He was a great confidant of Egan's, as much as anybody probably. He was Egan's most trusted lieutenant. John was also trusted by the rest of the Jaguar organisation. He was a very straight guy. Egan, therefore, was able to use him as a sounding board into the rest of the Jaguar organisation, I think, a lot, and Egan didn't trust any of the other people to anything like the same extent. John [Edwards] knew what he knew, and he hadn't seen the rest of it, and the transition team report that was done jointly by Ford and Jaguar immediately following the acquisition, done in the space of about sixty days from the middle of January 1990, made him more aware of the shortcomings of Jaguar's capabilities That transition team report was done very cleverly. It was done under the chairmanship of Bill Hayden, who was then not at Jaguar. He was appointed to lead the transition team initially, before it was known that he would be taking over. I was the first Ford employee in Jaguar. I went in straight away as a full time employee and I knew that Bill would be taking over, but nobody else knew at that stage. So Bill led the transition team, and it was done with people from each function from Ford and an equivalent person from each function from Jaguar and they worked as a

team. Each part of the report was agreed to by both sides. So, it was a jointly prepared report. It was incredibly damning. In the space of sixty days an awful lot of warts were uncovered. John Egan had a very hard time accepting that report and was eventually persuaded by his people that he had no option. It was factual. He thought it was exaggerated, inflated. He couldn't accept it at all. He was forced to roll over because he had no one to fight his battle for him; all the Jaguar people accepted it. Egan's mistake was in staying after 1985/86. Had he left before the launch of the XJ40 he would have been a hero. He did the job he was charged to do, but he became increasingly arrogant.

Transcript of the interview with Andrew Lorenz on 7th August 2007

When did you start to get involved with Jaguar?

When the Jaguar story started I was a reporter at the Sunday Telegraph, later Deputy City Editor, and then I went to the Sunday Times as Industrial Editor. One of the first big stories I reported on at the Sunday Times was the Jaguar take-over by Ford. In the run up to privatisation I dealt with David Boole, Arnold Bolton (David's number two), Egan, and the two Edwards': John Edwards, the Finance Director, and Ken Edwards, the Personnel Director. The Personnel Director was quite important. He had quite an important role in Jaguar because they were still in the process of recreating Jaguar as a standalone entity, with its own identity, which had been lost when it was reduced to a manufacturing or production operation within BL and it was called something like "Large Car Manufacturing Plant Number Two". Ken had quite an important role so I had quite a lot to do with him.

How much did you take on board from Jaguar? How much did you believe that they told you?

My MO [modus operandi] was always to get on with companies on the basis that (a) it made life simpler, and (b) actually if you got on with companies, but were still prepared to ask the odd probing question, then you had more chance of finding out earlier if anything was happening than if you were on the outside. So I listened to them a lot, but I also learned to read David's face, and what that effectively meant was that I missed certain things because he was very busy at times and slow in calling me back. But I also learned to pick up certain things. For example, we were the first newspaper to spot the fact that this decline was about to happen in 1989, and I remember writing a piece for the Sunday Telegraph saying that life was going to get a lot harder for Jaguar. Now what I didn't pick up was the warranty situation. I knew their quality wasn't great, but I didn't know it was as bad as it was. But to be honest I wasn't focused on the warranty situation, I was focused more on the basics such as the production side.

Did you have any idea of the extent of the benefit of the Dollar in the early 1980s?

Yes. But you know as well as I do that Egan was such a fantastic salesman. That was his great quality. He told a great story. They didn't try and conceal the currency benefit at all, they just didn't emphasise it. They didn't have to, the sales were zooming up. They weren't the only ones, to be fair. The Germans were doing the same. It was boom time in the mid to late 1980s for the European premium car companies selling into the States. In those days it was all export. VW didn't have a car plant there, Mercedes didn't etc.

Was there any instance where you came up with a story and David Boole leaned on you not to go with it?

No. I got on quite well with David. I know that everyone called him "David Booleshit" and all the rest of it, but I just learned to apply a David Boole discount. So around results time David was there and it was his job to put the best possible gloss on things, and I recognised that.

But nobody, but nobody, at the time published anything near the truth, did they?

No they didn't. But nobody knew how much trouble Jaguar were getting into either. It was literally as it was happening that I got the news that they were admitting they needed help, they needed investment. It was clear it was going into reverse purely because of the weak market conditions in the US. After one press conference at the time I asked one executive "What are you going to do about it?", and this guy told me "We're going to do something about it, but one person we're not going to do it with is Ford", which told me that (1) they were looking for a partner/buyer, and (2) they had Ford banging on the door, which nobody knew at the time. There'd been the odd rumour about Ford eyeing Jaguar, but that was it. And literally we wrote the story on the Sunday about Jaguar wanting to do a deal with GM, which happened to be the truth, and on the Monday morning, or early the following week, there it was: Ford did a dawn raid![120] Nobody realised how desperate the situation was, but there again you generally don't anyway, you only find out after the event

In your book[121] you refer to Egan's "brilliant marketing effort". What exactly did you mean by "marketing"?

Yes, well, I've never understood what marketing is. Well, he told a great story. John was a great salesman actually. I think he did a fantastic job of selling that story. In the early 1980s he understood what they needed to pull themselves out of it. In that kind of business image is really important. That was his forte. The trouble was the other side of Egan. What he needed was a strong guy alongside him to handle manufacturing. It never happened.

[120] Ford used their stockbrokers to purchase 15% of Jaguar's shares by bidding for them directly from existing shareholders. Known as a "dawn raid" because it was an event that usually took place early in the morning, with great speed, so that the share price in the market had no time to react (ie increase beyond the price offered by the raider) before the raider had obtained the required number of shares.

[121] Lorenz, Andrew. *A Fighting Chance. The revival and future of British manufacturing industry.* (London, 1989).

Wasn't David Boole regarded as the true architect of Jaguar's re-imaging? Indeed, a number of people have described him as Egan's Svengali.

Yes, well it was like Alistair Campbell to Tony Blair. I got to know David really well. I liked him a lot. David literally didn't understand where all the defects were. It came as quite as shock to him. In the end I found David a really, really interesting, very active barometer of what happened in Jaguar because the illusion he had helped create had been shattered for him. My personal belief is that Jaguar was a lost opportunity.
Egan presented himself as the new Sir William Lyons, which is why ironically he was so ultimately successful. He didn't want to do the deal with Ford. He really didn't want to sell the company, he believed the government would support him. He had a bad time after he left Jaguar. It ripped the heart out of him. He saw himself as being another Sir William Lyons. He thought GM was going to sustain him, that's why he was so keen on GM. That's why I fucked up with the Ford deal because I was seeing too much of the Jaguar side, which if you think about it was not too surprising given that I'd got this exclusive from Jaguar. I remember after one of these Waldorf Restaurant meetings going out and seeing David Boole, and Ken Gooding of the Financial Times came up and said "How are you David?" and David, obviously wondering what was coming next, said, slightly guardedly, "Fine, how are you?" "Yeah I'm OK, and how's the Hitler of the motor industry?" And poor old David's face was a picture! Egan was called Sir John Ego by a number of people. It was the standard joke. But let's be realistic about this, John Egan was by no means the first or the last egomaniac to run a company down the tubes. In business you have to know your limitations, and Egan couldn't possibly know his limitations, as Egan confessed to me afterwards. When Hayden came in and started basically slagging them off, exposing them, we wrote quite a lot about it. We didn't go out of our way to bash John Egan, although we were pretty disparaging. I got a call from David Boole saying "He'd like to meet you because he's been upset by some of the stuff you've been writing". So we had this discussion. He was basically asking me to lay off. I said "Look there's no point in me flogging a dead horse, so I'm not going out of my way to do it, John, but by the same token if that's the way the new regime sees it then I'm obviously going to report what they say", to which he eventually said, plaintively, to me "It wasn't my fault. I knew so little about manufacturing". That's what he said. "It wasn't my fault". But of course it was his fault because he should have recognised that he knew nothing about manufacturing, or engineering, or anything else, and got the necessary people in. It was a classic case: the need to ask the question "Do I have the right team?".

Transcript of the interview with George Magan on 8th January 2004

How did you get involved with Jaguar?

BL's own advisers, Hill Samuel, had been responsible for the Jaguar float. Of course, often in a situation like that you'd have a merchant bank for the parent company and one for the newly floated company as well. That wasn't the case here so I went to see John Egan and had a very good meeting and that resulted in Jaguar appointing Morgan Grenfell as its advisors. I always got on very well with John. It was very clear that what had been floated was not actually an independent company, it was totally beholden to control by BL, including the Board, including all sorts of supply contracts, so he had both hands tied behind his back. It was a very difficult situation. It was something of an upheaval when the Board was changed.

I left Morgan Grenfell in the Spring of 1988 to set up my own investment banking boutique, Hambros Magan, obviously particularly focusing on corporate advise. John felt that he would like to continue the relationship with me, to have me involved, and we both felt at that time that it would best be a joint relationship between Hambro Magan and Morgan Grenfell, although I had the lead role We were in the Inner Sanctum with John. It had become clear in 1988 that Jaguar was in a pretty difficult situation, due to the constraints resulting from the BL heritage, the launch of the new car and the investment costs of that, and the US Dollar going against Jaguar. In 1988 we had started the exercise looking to see if there was a partner out there who would take a minority stake, and had the financial muscle to be supportive during that difficult phase. It was pretty clear that some sort of external support was going to be necessary. I think that in that final year the scale of the investment was beginning to look enormous. Then there was the downturn in the trading. I think the combination of the two must have had a deep impact on the final recognition that maintaining the independence of the company was going to be more difficult, but up until that time I would say they were very independently-minded. I think the extraneous factors in the last year had a big impact. It certainly wasn't what we were aiming for when we started.

There were discussions with GM, and I believe a Japanese company, and a number of others, but it became clear that the two most likely were GM and Ford. One of them had $15billion in Treasury, the other had $12billion in Treasury. Both were being run by motor men. Both companies were very concerned about the Japanese penetration of the global luxury market, and both recognised that their own luxury brands, such as Cadillac, didn't travel. What started out as a minority interest project developed a life of its own, and developed into a very significant auction. I'd never ever been involved in an auction between two world class companies. John said afterwards "It's not a bad price, for leather, walnut, and old world charm". It was just as well that Ford wasn't able to do any due diligence. John had done a fantastic job. His leadership and charismatic skills in all this was absolutely fundamental.

Why didn't they have a Rights Issue? Why did that not happen, because they knew they would need a lot of investment?

I've no recollection of that. It may be because of the constraints of BL. There was a lot of to-ing and fro-ing over the Golden Share. It may be that the company got it wrong. They thought the good times were going to go on rolling. I don't have recollection of that particular issue. We must have wrestled with it, and there must have been reasons, good or bad, as to why it didn't actually happen. I think John had come to the conclusion that he did need an industry partner.

When you came on the scene in 1984 or 1985 John Egan was very much into the "We have a future as an independent" philosophy. At what point did that change?

I think that must have changed in early 1989 when it really became clear that however desirable that course was going to be they had to have a minority partner of real substance to provide the muscle and support. In the real world it probably wasn't going to happen. I think, funnily enough, General Motors would have been happier to have done that than Ford, but when Ford were starting to say that they wanted to buy the whole company the situation was changed. I can't remember how that process started. I do remember the last Board meeting of Jaguar, which lasted 36 hours, although we used to break to go and see either Ford or General Motors. I think that in that last period John must have come to the conclusion that in the real world you can't be half pregnant; you can't have a Ford or General Motors sitting on a minority stake. You can have your autonomy in other ways. Ford have protected the integrity of the marque. They have invested hugely in the business. And they created a product which is highly acclaimed. But it wasn't where initially John was coming from. It must have been in early 1989 or mid 1989 that it really started to be clear that this was going to end up in the hands of one of the big players.

In 1986 they were offered Land Rover. Were you brought in to advise on that?

Now that you say it it rings a bell, but I'd completely forgotten it. But I think the answer is yes. But I've forgotten what we did or what happened.

If we go back to the start of your involvement, did you believe that Jaguar did have a future as an independent?

I think the answer is probably yes. I saw that a lot had been done, and it was obviously a prestigious client to have. I think that what we trying to make sure that they were increasingly independent and autonomous, and not still part of the Soviet of Leyland. The float and the arrangement between the company and BL meant that the board was controlled by BL, the agreements regarding the manufacture of various body parts were tied into BL. My recollection is that the first thing we were looking at was how we made it an independent company, how did we finally extract it from BL. Then we had the whole question of the Golden Share, and various other bits and pieces which were

occupying us at that stage. John himself was really "Gung Ho". You couldn't be a driving force unless you believed you should be independent.

You weren't long in getting rid of Orr-Ewing and Ray Horrocks, were you?

Horrocks was very dominant still on the Jaguar Board and was a very strong personality, and was still very senior in BL. I suppose that emphasises the point I was making; that the company wasn't truly autonomous, and had to finally break free of various constraints. Really it shouldn't have been floated in the way it was, and, interestingly, the flotation only had one merchant bank adviser, both for the parent company and the company being floated. Pretty unusual, or very unusual. I think those issues in those early days were the ones that preoccupied us.

Transcript of the interview with Hamish Orr-Ewing on 14th November 2002

How did you get involved with Jaguar?

I was known to Ray Horrocks, who was also an ex-Ford man, but a younger generation.[122] I had made a number of comments at several CBI conferences at which Ray was at, showing that (1) I knew the motor industry extremely well, (2) I had reasonable City probity. So, in that sense it looked that, if I was willing to do it, I would be a good fit as Chairman of Jaguar. More or less out of the blue I got a telephone call from Austin Bide, who at the time was Chairman of Glaxo, and the non-executive Chairman of BL, asking me for a meeting. They wanted someone who had in-depth understanding of motor manufacture, together with a possession which would be credible with the City, to become non-executive Chairman of Jaguar when it was privatised. I perceived it as a job in which one would be helpful, one would open certain doors which would be unlikely to be available to somebody who had never in fact been involved as Chairman of a public company. I did not know Ray Horrocks at all well. I said "Yes, I'd like to do it". I did not know Egan. I assumed since he had a good reputation that he would be an effective CEO and, since my career was hands-on management rather than a City man who had come in to do something, that we would get on well, that I would not get in his way and run his business, and that we could do the various things that a good non-executive Chairman and an executive CEO need to do together. It was a role I understood, being a non executive director of other companies. This probably was naïve and I would probably have been much wiser to have said to Austin Bide that I would like notice of the question and I would like the opportunity to fully familiarise myself with Egan and his management before I said yes or no.
Almost immediately, having said yes, I found myself involved in the hurly-burly of the whole question of Jaguar becoming a quoted company, and I did find that the attitude of BL was highly proprietorial, and quite a lot of people in corporate affairs saw it as their show, understandable as it was their subsidiary company. I also fairly quickly, having met Egan, began to realise I was dealing with a man who disliked intensely the whole BL management, not necessarily as people, but he resented the fact that they were there at all, notwithstanding that they'd given him the job. And I very quickly began to have misgivings as to how easy he would be to work with. I personally was not the slightest bit ambitious as far as the Jaguar situation was concerned. I had my own world of business. It was certainly a nice feather in my cap, as an additional thing, but it was not something that made any significant difference to my standard of living. My intention was to be helpful, hopefully to enjoy it, to muck in. Yes, certainly to have a substantial say in where the company was going, and in the strategy. I felt that Egan, who was ruthlessly ambitious, perceived the thing in a totally different light, perceived me as being a place-man of BL who really was going to keep Jaguar, although a quoted company, as *de facto* a subsidiary of BL. That was not their intention. However, I thought that with Horrocks'

[122] Hamish Orr-Ewing spent nine years working for the Ford Motor Company, the last four years (1959-63) as Light Car Planning Manager. In this role he played a major part, under Terence Beckett, in the planning and launch of the Ford Cortina in 1962, Ford UK's most successful model and which, according to Wood, contributed half of Ford UK cars' profits until the line was discontinued in 1982 (Wood. *Wheels*. p150). Orr-Ewing then held a similar position at Leyland Motor Corporation, 1963-65, before joining Rank Xerox in 1965, becoming executive Chairman of that company in 1979.

experience of dealing with Jaguar it would be an extremely good idea to have him on the Board. I therefore asked him to join the Board. Egan, I'm sure, perceived that as a reinforcement of his view that he was not going to be allowed to get free from BL. Most people are sensitive about their position, their dignity and so on, but Egan was sensitive to a point that was almost pathological. I think he must have spent a very great deal of his time churning over the animosities that he felt towards BL because his conversations were peppered with unflattering remarks about the individuals, about the company, and everything else. It might have been justified, but it was not said in a justified and analytical sense. So even by the time that we were going through the whole process of the launch of the company on the Stock Market I felt that I was not making base with John Egan.

The next significant contribution to that relationship was again something that was fairly naïve on my part. It seemed to me that if Jaguar was going to be a public company it was desirable that we added to the non executive directors. I said to John Egan that we should have more non executive directors because the company was very short of people with wider experience. Somebody who had already been chosen to be a non executive director was a man called Ken Bond who was the Finance Director of Beechams, and a very sound man. He was not the sort of Finance Director that, say, John Barber had been at Ford: a power in the land, way outside the finance field. He was more conventional. I didn't feel that was sufficient, and I said to John Egan that we should have more non executives. He did not immediately say no, but it got back to me fairly quickly that he was outraged by this and saw the appointment of any more non executives as being directly intended to undermine his standing. I didn't see this at the time. It seemed to me at the time to be non-controversial, or if controversial, then something you would discuss. I then found out that things were taking place between John Egan and his direct reporting line that I was not being appraised of. These were substantial issues I wasn't being told about. Jaguar was in Coventry, I was fundamentally based in London, and the extent to which a non-executive Chairman can contribute depends to a very considerable extent on the willingness of the resident CEO in spontaneously providing information, spontaneously seeking to discuss things, and being reasonably willing to respond to the suggestions the Chairman makes, or discussion of certain issues. He did whatever he could to freeze me out. I know this for a fact. I was disappointed, and periodically hurt, at the cold shoulder I was getting. To be fair to Egan, he undoubtedly saw me as a Trojan Horse, put in to ensure that the whole thing remained in the orbit of BL. I was naïve in my approach to the whole thing, and I should have known better. Egan was unnecessarily venomous, for reasons which if he had given it more chance he would have realised was not a cause for concern on his part. The end was unpleasant.

Ray Horrocks was in Australia, and there was a Board meeting at which there was no fairly substantial issue on the agenda. I anticipated that it would be more or less routine. When we sat down, Horrocks being away, and, therefore, Egan, having around him a majority of people on the board, without any prior notice, started in with a prepared diatribe which was that the operating company had lost confidence in the Chairman and therefore action had to be taken. He then called for a vote, and I said "I intend to withdraw until you've had that vote". Ted Bond came out of the room to where I was and said "What ought we to do?" I said "Do whatever your conscience tells you", and to my surprise he voted with the others to remove me as Chairman, whereupon I returned. Egan

made a couple of unflattering remarks, and here I fought my corner. The remarks were unnecessary, and they were not even relevant. Then from out of the woodwork appeared the company's lawyers, Coward Chance, who had clearly advised, although I think with reluctance, because after the meeting the partner concerned came to see me and said they were dismayed at what had happened, that they had been acting as they believed had been their duty to their client, but that they had found it very distasteful. They appeared on the scene clearly as external witnesses. I asked them to be explicit as to what they meant by saying they had lost confidence in the Chairman, and, of course, nobody would say. In essence it was a palace revolution. It wasn't based on any specific thing, although there was one thing. Then wheeled in were two other senior members of management; one the present Managing Director, Beasley, who were then appointed to the Board.[123] That secured for Egan a majority which meant that even when Horrocks came back he would still have a majority to deal with it. There was a man called David Boole, and it was he who really built up Egan, and they then proceeded to present me with a statement to present to the press. I could either have fought my corner or challenged it legally. However, I decided very quickly I wouldn't do that because although emotionally it upset me very much, in the bigger picture it didn't matter that much, and secondly I was not sure I would win. And never fight battles that you're not going to win. So having modified the press release to some extent I agreed to its release. When Ray Horrocks came back I think he was disappointed that I hadn't fought a rearguard action.
My principal contribution had been to change their merchant bankers because Hill Samuel was BL's. George Magan I knew. He was clearly very shrewd. I suggested that we move to him, and Egan agreed. What I didn't realise was that Egan already had contacts with Magan before I came on the scene. Where I did make a mistake was that I arranged with Magan that he come and have dinner with me, and I chatted through the whole Jaguar situation. How I was concerned about its long term future. I got Ted Bond to come along to that as well. My thoughts on that were quite simply that Jaguar was a very small company in the motor industry and I could not see that it could generate enough cash to maintain the development programme which would keep it abreast of the likes of Ford, Daimler-Benz etc. Therefore, the prospects for the company were either to grow on its strong share price, which of course at the time the share price had increased very greatly, or to use the strength of the shareprice to acquire things with which Jaguar might have a natural fit. Land Rover was one of things that I had in mind. Land Rover and Jaguar were approximately in the same scale of companies. Combined it would have been possible to have the same number of corporate staffs and thus greatly reduce the headcount. It seemed to me to be a very good idea. But from the outset I never really believed the company could remain independent. I always thought that Hill Samuel had underplayed things by saying that they couldn't get the shares underwritten at more than 165p. I thought it was reasonable for George Magan to go and just look around and make a shopping list. All this was entirely strategic, entirely provisional. I would in all other circumstances, had Egan been more friendly, more helpful, had him join me. But as I felt he would have been destructive I decided to do it on my own. Unquestionably that was a *faux pas* for which he had every right to be offended. Magan said to me, just as he was leaving, "At this stage do you want me to talk to Egan about it or would you prefer that we dealt together". I said "At this stage let's just get a shopping list, and your thoughts on

[123] The other appointee was Kenneth Edwards, the Personnel Director and Company Secretary.

this, at which point we'll bring John in". Magan immediately told Egan exactly what had happened, without telling me he was going to. So, it was a mistake, it should not have been done like that, but I personally felt that George Magan behaved very badly. It would have been entirely acceptable if he'd said he'd been thinking about it and couldn't do it without talking to John Egan, and that he thought he ought to do that. I'm sure it incensed Egan. He never referred to it directly, but I think it's that that worked him up to the stage of doing what I think he was intending to do anyway at a later stage. So that was it. Something that I have also learned which I ought to have realised, and frankly it would have been very helpful if Austin Bide had warned me about it, but I suppose he felt it was up to me to find out for myself, that already Egan had a very close relationship with the Prime Minister and saw her regularly, to the extent that really he was able to demand to see any Secretary of State that he wanted. There's no doubt that Margaret Thatcher had a great antipathy for British Leyland. I am quite sure that she also considered me to have planted there by BL unnecessarily. I think she felt that I had been brought in to keep an eye on him, which in fact was true but not in the sense that Egan would have told her. It didn't help that our Prime Minister did not like me anyway. Chemically we didn't get on, and there was a specific thing regarding ICL. Thatcher thought that Rank Xerox might have taken ICL over, but I was opposed to it, as she had discovered. The two things, therefore, would have come together. The Prime Minister would have had no sympathy whatsoever for me when she learnt that BL had approached me to take over the Chairmanship, and when, as I'm sure he did, John Egan questioned why I should be there. Therefore, by the time all this happened I had got strong wind of just how close he was to the Prime Minister, and any thought of fighting a rearguard action was highly coloured by that knowledge. I wouldn't have won anyway.

Did Egan have the backing of the company's merchant bank, its stockbroker, or any of the shareholders, in this?

He certainly had Magan behind him, and Magan was the driving force in the merchant bank, so he certainly had them behind him. Magan quite clearly thought, and rightly, that the one to back was Egan, not me, and if there was going to be any problem he was going to go straight to Egan and tell him what was going on. So, without a doubt, Magan had advised Egan that if he got rid of his Chairman it wouldn't cause any real problem with the market. At Cazenove, Jaguar's stockbroker, the senior partner at the time was Forbes. I'd met him on previous occasions, and when this occurred I rang him. He said "Yes, I knew it was coming. Egan rang me a couple of days ago to tell me what he had in mind. It's not the sort of thing we would get involved in unless we thought it was going to do great damage to the share price". He said "Egan is a very dangerous man". He asked me what I was going to do about, and I said "Nothing". He said "I think you're very wise". The last thing that occurred was at a subsequent meeting at which most of the Secretaries of State were present. Norman Tebbitt, who I'd met on a number of occasions, came over to me and said "Thank you very much for not causing a fuss over that. It would have been embarrassing for us, for reasons that you can probably understand". So that is the human relations side of the story.

Whilst Egan is not a particularly likeable man, I think he's paranoid, and I think that he's not a particularly good businessman, and very overrated, he nonetheless did have great loyalty within the Jaguar staff. A tough customer, and when he said something would be done it happened. After years of very woody management, Egan arrives on the scene; strong personality, forthright, no nonsense, and did hugely raise their morale. He was a very naïve man oddly enough. He sincerely believed that Jaguar would be able to remain indefinitely an independent company. What prompted him to believe that was that at the time the company was floated the exchange rate with the Dollar was about 1.35 to the £.[124] That meant that the flow of cash from the US, the world's biggest market, after a considerable revival of the product's fortunes in the US, again to Egan's credit because of his ability to promote the company as a new and different business, was arriving in bucketloads, and Egan had no real idea of how that could change. He was not particularly well-informed on the motor industry. He had not been through it in the way, for example, that I had before. Ford was the best business *alma mater* anyone could have. There was a very, very deep understanding of how the industry worked, of what counted. People at quite junior levels were deeply involved in all the financial parameters which would justify a programme. Costs were understood in great depth. They were also discussed through a wide spectrum of middle and junior management. The level of business confidentiality to external companies was high, but internally things that many, many businesses kept wrapped up, and therefore were talked about by only a very small number, were the subject of everyday meetings, discussions etc, and we all learned very thoroughly exactly what made the company tick, what its key factors were etc. Egan had never been through that sort of discipline, and I think he believed, because there was no doubt he had a charismatic ability to motivate people, that it would be perfectly possible to generate enough cash to develop new products which would not only keep pace with people like Daimler-Benz and BMW, but maybe gradually dominate them. And that was not just a sales pitch; that is what he believed. On one occasion I remember Ted Bond, Egan, and I were standing together, talking about the whole question of the company's future development, and Ted Bond said "Well, we have to bear in mind that at some time in the not too distant future we may need a Rights Issue to raise enough funds". Egan said "We'll never need a Rights Issue!" Ted, I remember, said "I'll remind you of that one day in the future". Of course, the company was very nearly bankrupt by the time that Ford bought it. It was in a financially desperate state. A great deal of the alleged improvement in the product was actually public relations, not reality. It was within months of liquidation. The decision to buy Jaguar was not based on any objective judgements at all. There was competition between Ford and GM. GM was pussy-footing around, and Alex Trotman was asked by Poling to secure the deal. I know that Trotman was appalled by this.[125] He saw it as a total waste of money. In 1992 Trotman succeeded Poling as Chairman of Ford worldwide and came to the conclusion that two things could be done. One, Jaguar as an entity could be wiped-out, the name be used for badge engineering, or having paid all that money, having invested many times more than that sum, be used to produce a viable company of up-market cars, which Ford essentially didn't have.

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[124] The exchange rate during August 1984, the month of Jaguar's flotation, fluctuated between $1.327 and $1.308 to the Pound.

[125] Or-Ewing was Trotman's first boss when the latter joined Ford in the late 1950s, and the two retained a good relationship until Trotman's death in 2005.

Where did the impetus for flotation come from?

I suspect there is no clear answer to that. My view is that Egan, having become Jaguar's Managing Director, with the help of David Boole put the company on the map. It became highly visible. All sorts of stuff was being promoted about the new world of quality, new approaches to this, that, etc. I think the Prime Minister was most anxious to have successful privatisations of things which were not just electricity companies. Egan was nothing if not a pusher. He had, I think, the opportunity of meeting her, and the genesis of a quoted company arose from his desire to do that because it would give him a personal platform, and her desire to see something like a motor manufacturer which had been in public control flourish, and become a new entirely enlightened manufacturing entity. I think that was the background to it. I do not believe it had too much to do with the BL side. I don't think they would have done this. I won't say that they were actively reluctant, but they certainly would not have gone the privatisation route unless they had had very good reason to do so from external pressure. I think essentially Egan built the image. Margaret Thatcher saw him as really some sort of incarnation of the British version of the American dream, and saw her own ambitions being realised by it.

And when it started going wrong she dropped it like a hot potato?

That was not surprising. She supported it as long as it was highly credible and trouble-free, and could be held up as an example of what free enterprise could achieve once it was freed from the shackles of nationalisation. It began to need money, and therefore the only way that could be achieved was to let the Golden Share go by the board and let the other interested companies come in and take it over. As soon as the thing started to turn sour I'm sure the government didn't want to know anything about it at all. But that's characteristic.

Who provided the impetus for the appointment of the non-executive Chairman?

Probably a combination of Austin Bide, Ray Horrocks, and David Andrews.[126] There were a number of people on the board of BL who thoroughly disliked Egan. Ray Horrocks appointed Egan, it was not Michael Edwardes. I would say that it would have been a consensus of opinion of the non executive and executive directors of BL to do this. That was the impression I was given. Austin was a cautious man. Why me? I think that was unquestionably Ray Horrocks and David Andrews, because they knew enough about me to know that I was steeped in the industry, but also had moved out of it and could therefore be a credible appointment. I think it was a BL rearguard action to say that to let Egan loose on a public company would have been irresponsible, so we'll find a Chairman who can calm things down. In that I didn't serve them well.

[126] David Andrews was BL's Executive Director responsible for BL's Truck and Bus operations worldwide, and Land Rover.

Did Egan understand that the Chairman is there to represent the interests of the shareholders?

It would absolutely not be part of Egan's temperament. Jaguar was his property. Absolutely. Totally. Shareholders were things that happened as it were. He never had the kind of conversations that indicated that we've got to be quite sure that shareholders feel comfortable; we've got to be careful to reassure the shareholders before we do this that etc. Never anything like that. He was an intensely egocentric man.

What did you think of the management team at Jaguar?

By the standards that I was used to in Xerox they were very ordinary people. Jim Randle, the engineering director, an extremely nice man, was terrified of Egan, as they all were. He was a very good conceptual engineer, but not particularly good at getting things done. I always felt that the spring was only half wound out. I couldn't really make any comments on Mike Beasley. The Finance Director at the time, John Edwards, I would say was a small company accountant. He very much fancied himself, but he was a very ordinary sort of fellow. David Boole I didn't take to at all because he was the creator of Egan, and, of course, he briefed against me. He really was not a man that I was able to relate to at all. He was Egan's Svengali. I doubt whether Egan would have reached the position that he did if it hadn't been for David Boole. Egan was in many ways quite a naïve man, and whatever else Boole was he was not naïve, and Egan gave him total license to do more or less anything he wanted. The Company Secretary, Kenneth Edwards, was a very ordinary man. I think Garel Rhys at the time made the comment that Jaguar was a one-man company with no substantial management back-up, which pissed them off no end, but he was absolutely right. I think all experiences are worthwhile. It didn't actually do me any harm because I kept my head down. I didn't try to fight it. It simply was a nine-day wonder. However, it was altogether a couple of unpleasant years. The sort of thing that made it so difficult was when the Queen Mother was visiting Jaguar. Egan carefully kept me from knowing that. Another little example of the lack of generosity was that when Sir William Lyons died, Egan carefully arranged that all the seats in the front of the church for the funeral had names on them and left mine off. So petty! And it is true that I took the job with the intention of being entirely helpful and friendly. I was used to non-executive positions. I was taken aback by the hostility I encountered, but one has to see it in the context of how Egan would have perceived it. He saw me as a plant, and that I invited Horrocks onto the board reinforced that view. He wanted to be seen to have sole control.

Did you have any idea of just how bad it was at Jaguar?

No, not when I joined the Board. I very rapidly discovered that the business was a legacy of a genius master builder [Lyons], and up to the late 1960s a motor car was sufficiently straightforward that a small company dominated by a very industrious and ingenious man, backed by some first class first line reporting, was perfectly capable of holding its own in the marketplace. Development costs were not that high. Jaguar was able to generate enough cash during that period to pay for its own development. Lyons knew

quite well that motor manufacturing was not going to continue on that scale. So he sold it to Stokes[127], who was the worst industrialist that this country had ever had the misfortune to experience. Lyons had run the company on a shoestring. If you went through its main machining operations for machining engine cylinder blocks, cylinder heads, gear boxes, all heavy bits, this was being done literally on rigs, adaptations of standard machine tools in most cases, and many of those extremely old. There was virtually no purposely designed machine tools to do special jobs. That was a perfectly sensible way of going about it at that time; it was inexpensive, it was highly flexible. Where Jaguar ran into trouble was when the era of electronics appeared and suddenly a new world opened up: engine management systems, ABS braking systems etc. These became hugely expensive to develop, and required skills which simply did not exist in that sort of company. So, what had really happened in Jaguar by the time I got there was that they simply had not addressed that problem. I don't think Egan had realised how woefully lacking they were in capacity to build that sort of thing. I don't think he had the analytical capacity to coldly and quietly assess the situation in the company which he was in. I believe his ego was such as to believe that all that was detail, and that with his ability anything could be achieved, which is admirable in some respects, but not when you're in a company like Jaguar which really was on its knees. Ironically enough, the products built during Egan's era were in many respects the most unreliable and unsatisfactory throughout the history of the company. That is not what the public was told, but it was the reality.
The build up of the image of Jaguar by David Boole as a study of rebuilding a company's public image was absolutely masterly but it had a serious backlash, and it is something that one could look into because everybody had been told that Jaguar was now a completely different business with new vision of quality control, new participation by the workforce, pride, new product at the forefront of technology etc. That turned out not to be the case, and there was some very serious disillusion, particularly in the US where the new "big cat" actually turned out to be very unreliable. As a study in the promotion of a business without actually altering the product it was unquestionably a very major achievement. Whether it was the right way to do things I don't know. But Egan rebuilt the image of Jaguar that had nothing to do with the change of the product. It worked, there's no doubt about it. Jaguar was suddenly heralded as this new sparkling business producing different products with an industrial philosophy which was radically altering everything. Motoring journalists and politicians all believed it. It is astonishing to me that it was so successful. I've not known anyone else who's been able to take a company which fundamentally had not been changed at all. He did manage to put the company on the map in a way that I would have thought was impossible.

[127] Sir Donald Stokes, created Baron Stokes in 1969, was Chairman of the Leyland Motor Corporation from 1963 to 1968, and Chairman and Managing Director of BL from 1968 to 1975.

Could they have solved a number of problems through raising funds through a rights issue?

Yes, but whilst they could have had a Rights Issue and raise a substantial amount, I doubt that they had the management ability to use the money. I also doubt whether Egan would have had the ability to mastermind that. There was an ego problem here. You've got to have a strategic plan, worked out in great detail, stick to it, and that requires having a staff of very high calibre. None of the people at Jaguar that I met had the skill.

Transcript of the interview with Roger Putnam on 23rd November 2006

What was your background with Jaguar?

I joined Jaguar in 1982 from Lotus. I'd been at Lotus for sixteen years. John Egan got me out of Lotus, initially to be Sales and Marketing Director. But then he had Neil Johnson imposed on him for that role, so I was told, and I was asked if I would still come because even at that time Neil had made it a condition of his joining that he had a long term ambition to go back into the army. I was quite keen to get out of Lotus at the time because in sixteen years there I'd learned a tremendous amount from Colin Chapman[128]; an interesting man, but if you went for a country walk with him you'd end up climbing Everest! I was looking to get back into the mainstream motor industry rather than be with a company which had to kick-start every morning. I'd been global sales and marketing director there for the last eight years. I got headhunted in to do the sales and marketing role at Jaguar. I think because of Neil's BL background, Ray Horrocks kinda forced him on John, so John told me. I'm still a very good friend of John's. Neil wasn't John's choice, but John had his arm twisted. John wanted someone who would stay the long term, not disappear back into the army. Anyway, Neil came in and spent an awful lot of time down here in London with his army connections. He was the first Territorial officer to take command of a London regiment. He was very keen to do that. He commanded the Third Battalion The Royal Green Jackets for four years. He left Jaguar under a cloud. John and he fell out. Neil left just as the XJ40 was being launched, the most important event post-privatisation, so John wasn't at all pleased. And then, Neil and I were in reverse roles for about six months; I took his role and he took mine. I had a very odd title which had more to do with the fact that they kinda wanted me in, with status there, waiting to take over. I was Director, Marketing and UK Operations. I had global marketing because Neil had no marketing experience, but I had from my Lotus days. Within two and a half years I'd taken over Neil's role, and stayed there for another twenty.

How was the marketing function at Jaguar organised?

Under BL Jaguar had lost its entire sales and marketing UK based operations. It was all sucked in to BL under Trevor Taylor. I was brought in to build up the freestanding sales and marketing function to take Jaguar private again. North America was always totally independent because they'd actually survived the BL period as a total entity under Graham Whitehead, although Mike Dale was effectively running it. Graham was a kind of a figurehead at that stage. Mike Dale survived the Ford take-over. The marketing structure was really international rather than global. The US, after the rigors of BL, kinda declared UDI and ran very independently. They used to call Browns Lane "the fucktory". They hated it. The only person they'd take any instruction from was John.

[128] Colin Chapman. Founder and Chairman, Lotus Cars. The company was founded in 1955, and was listed on the London Stock Exchange in 1968. Chapman passed away in December 1982.

How did the US forecast sales? From dealers, or from some sort of independent analysis?

Both. Of course the dealers ran the US business, rather than the other way around. The Dealer Council was immensely, immensely powerful, and still are. They throw their weight around, and did so very much then. So if they were hot the forecasts would go up , but if they turned off the forecasts would plummet down to the ground. No one foresaw, I don't think, how successful the Series III would end up to be: the car that really prepared Jaguar financially for flotation. The Pound was very weak at the time. It almost reached parity in 1984. It meant double income coming in through currency. The Treasury worked for John Edwards and did the most incredible job of hedging dollar income. That contributed enormously to Jaguar's profits, 1985 through 1988. Of the £120million peak profit that Jaguar made, £80million was currency, and the rest of the profit came from the non-US market. Just after the Ford take-over they separated out the income and profit streams from the US and my markets (at that stage the US was still independent), and they could see Jaguar's performance in the US was appalling. Overall we were breaking even. I was making about $200million, and the US was losing $200million.

What were the underlying causes?

Currency had gone wrong, and they [Jaguar US] were spending 17%-18% of the margin value of each car on what they called variable marketing, which I'd never heard of, which effectively was putting money in the boot.[129] My first meeting with Bill Hayden, my first

[129] When Mike Dale was asked about this he responded as follows in an e-mail to the author on 16 May 2008: "Roger has the number right, but his timing and understanding of how we used the money are wrong. At the time of the Ford transaction we had already talked the Board into bringing the 1990 model XJ40 into the US with better equipment and held the price by reducing both the factory and the dealer margin (20% down to 18%). This was to offset the introduction of the Lexus which really exposed the XJ40's high pricing. For approximately 12 months it worked well, but the quality issues were really dragging us down and market research showed that approximately 85% of the luxury buyers would not even go into our showrooms because the quality was so public. We had to find an innovative way of getting people back into our cars, which, with Ford's management, had actually improved quality by the 1992 model year to average levels for the industry (J D Power Five Year Report). The answer was SuperLease. This was a lease that had a tag on the advertising that said if you were dissatisfied for any reason in the first 30 days you could bring the car back and we would refund all your money, including taxes. It also paid for everything except gas and oil for the duration of the lease. This meant we had removed the responsibility of cost from the customer and was a bold statement about our faith in the quality improvement. It worked well and brought us our first move upwards in volume (40%) which was vital for the production line to keep the quality improvements going upwards. We were the only market that could give this kind of rapid volume increase and, you could argue, the US saved the UK's arse once again. Leasing had the added advantage that, unlike putting money in the trunk, it didn't advertise our retail price weakness because all the customer saw was the monthly lease payment. The snag was the lease required us to guarantee a residual value at the same percentage as our competitors in order to achieve a competitive lease payment. This is where Roger's 17%/18% comes from, and the improvement in this situation over the next eight years was the major driver of getting Jaguar in the US back into profitability. Volume and warranty costs together were less than 50% of the profit improvement. By 1999 a three year old Jaguar sedan coming off lease was worth over 9,000 dollars more than the same model in 1992. In the beginning we had to provide that 9,000 dollars in order to be competitive on our lease. It was quite biblical really. The factory had to pay for its quality sins rather than the customer."

presentation, I took him through all my marketing plans, costs and so on. "OK" he said, "where have you hidden the variable marketing costs?" What is variable marketing? Of course in luxury selling in Europe the whole basis of the sale is getting a premium, not actually putting money in the boot to get rid of the product, to get the supply/demand right. But, of course, the Americans, and volume car manufacturers, don't understand that. It's all about moving metal at whatever cost, and hoping you've got marginal profits at the end of it.

What was the impact of the 1987 Stockmarket Crash on Jaguar?

I don't know. I think the quality hit the US very hard. Very, very hard. And the US dealers were not prepared to go the extra mile they were in Europe to look after the customers.[130]

What were the main problems with the XJ40 in terms of the quality?

Suspension. Electrics. General disappointment with the "Tokyo by Night" display on the dashboard. But there were a lot of problems with the suspension for the US.
I think that if the truth were told it was a combination of design faults, the car wasn't properly engineered, there were some issues with the rear suspension which weren't resolved until some time later. In the UK and Europe we were able to maintain premiums with dealers who went to the final n^{th} degree to make sure customers were looked after, even when they were having constant problems.[131] Dealers made a fortune. It was probably the most profitable franchise in the UK, although not in Europe because the volume wasn't big enough. It went up to about 15,000 units from 3,000 when I joined. The US dealers were a very fickle bunch. I think we created a mindset at that time; they weren't making millions, and they were very unhappy. They kicked up very much.

What was the impact of John Egan on the US?

Without any doubt, one of John Egan's greatest achievements when he first took over was actually getting the US dealers' confidence restored. He gave Mike Dale the confidence to go out and get the dealers to place their support. And John would always turn somersaults for the US market because he realised that if they did turn against us it would be very tough to overcome. John's marketing ability was very high. John left the rest of the world pretty much to me.

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[130] This view is bitterly disputed by Mike Dale, who commented to the author in an e-mail on 9 May 2008: "Consider the dealer situation in the US. Enormous commitments had been made by the majority of them in facilities. Why would they not go the 'extra mile' to defend their own money? Many of them went bankrupt. It was a terrible personal tragedy for them". See also *Appendix* footnote 107, page 74.

[131] Roger Putnam added in a telephone conversation on 18 July 2007 with the author: "We'd got the XJ40 absolutely flying away in the UK, and the last thing we wanted to do was to see a big 'ho-ha' about the quality getting out. We were actually quietly tackling the quality without making a big noise that might play when they brought over the US dealers. And the US had this list of 101 problems – the '101 Dalmatians'. There were a mixture of issues that were specific to the US, and the fact is that we were handling it in a much quieter way in the UK so as to not actually rock the boat. The UK market is the biggest pushover in the world, not just cars, but anything".

What about the UK Dealers?

I inherited some 300 dealerships under BL, giving away 15 cars each. If you took the demonstrators out, there'd be virtually no cars sold. We started in 1982, and by 1986 it was settling down at 100 cars per dealer at full margin. The dealer network had come down to just over 100, so I wasn't the most popular man with the dealer group.[132] I actually reduced Henlys[133] down to 3 from 22 outlets. By 1988 we had 111 dealers selling an average 130 cars each. We took the dealer margin down, something I borrowed from Lotus. We were giving them 17.5%, and took that back down to 15%, and put 2.5% into a big pot, and those dealers who were prepared to invest took money out of this fund. It caused all sorts of squawks. That was the incentive, the wooden ratchet, to get the dealers to invest. And those dealers that didn't want to invest went. Lookers[134], for example, wouldn't invest so we parted company, on a friendly basis. And for 10 years the dealers made a lot of money in the UK. Pendragon, for example. Trevor Finn was a huge supporter. He built one of the first showcase dealerships in Derby. It typified our new corporate identity. John generally left me alone to get on with it. He came down to my office late one evening and said "I've just had George Turnbull[135] on the phone. I understand you've threatened to fire Inchcape. You must let them off". I said "Sorry, my apologises, I haven't done it yet. Look, we need to get them in shape. There are some very poor players out there, they're destroying the ability to get others to invest in proper showrooms which is the key problem we have. I'll reach an agreement with you. I have to go down a very long plank and take on some very big other companies to get them to do this stuff. If you're happy with that stand on the end of the plank then fine, but if you want to get off let me know and I'll come back". And after that I took on Cowies.[136] Cowies wanted to buy Appleyards.[137] Unfortunately, Cowies was being represented by Hambro Magan who were also our advisers. So George Magan rang John and said "Your man has threatened Cowies that they can't buy Appleyards". In those days manufacturers had tremendous power as to who could represent them. "He can't do that, it's probably against Stock Exchange rules". "Nonsense" said John. Again it was late one evening, about seven o'clock, when John came down to my office. He said "I've just had George Magan on the phone. What are you doing?" I said "I had Ian Appleyard on the phone about an hour ago. He told me that he's got a hostile approach from Cowies. I told him

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[132] Roger Putnam added in a telephone conversation on 18 July 2007 with the author: "Although Neil Johnson was talking to the dealers about rationalisation at the end of 1981, nothing actually happened until I got a grip on it in the middle of 1982. In fact, not one had been fired between 1981 and the end of 1982. We had 302 dealers when I joined, and over the next four/five years we got it down to 120. It cost us nothing. I think we had one dealer who half-heartedly threatened to sue, but that didn't get anywhere. They didn't have the degree of protection they had in the US, and it was done with great goodwill".

[133] Henlys at the time was a major publicly quoted motor distributor, operating largely in London and the south east. Henlys was hailed as having been the "biggest single external influence" in the initial development of what became Jaguar Cars, ordering 500 cars, to be delivered at the rate of 20 per week, in 1928 (Whyte. *Jaguar*. pp44,55).

[134] Lookers was a quoted motor distribution group, operating largely in the Manchester/Lancashire area.

[135] George Turnbull was Chairman of Inchcape Plc, probably the single largest motor distribution group in the UK at that time.

[136] Cowie Group was a quoted Sunderland-based motor distribution group with a large car leasing business.

[137] Appleyards was a Yorkshire-based quoted motor distribution group. Ian Appleyard, the Chairman, was a former Jaguar rally driver, and former son-in-law of Sir William Lyons.

'Don't worry about it, he can't do anything'". It got back. Cowie got hold of Magan, said 'Get hold of Egan', but in the end Cowies didn't get Appleyards.

How big was the marketing organisation in Jaguar at the time?

Tiny, absolutely tiny. Probably twelve people in the marketing function itself. In the first two years of Egan a lot of the number crunching, market analysis, and so on, was still being done by BL, and then Joe Greenwell, who finished up with us as Chairman of Jaguar, came out of BL to join us. A guy called Phil Wade took over the market analysis side, and Joe Greenwell worked for him, and we had our own marketing services function which was the function which changed the core identity, started all the advertising, dealer events on a global basis. It was a very tight tiny function. It's even bigger now even though Jaguar's doing relatively poorly. Under the Ford regime it grew like topsy. It's become a massive bureaucracy.

What about the grey market in Germany in 1985? Weren't there cars going into Germany and out the back door to the States?

I'm afraid German dealers in the luxury sector have always been massive grey marketers if there's a shortage. I guess it's a weakness on the part of British manufacturers to look at the size of the local German market and always plan a much bigger share than they could actually achieve. And therefore they always over-supplied the German market to meet that share expectation. The easiest way to get rid of that share is to actually sell it somewhere else, particularly if the market's soft. It's always been a problem. If they weren't supplying the States the German dealers were supplying somewhere else. When Italy was very hot in the middle of the 1990s for the S-type, the number of S-types that were flooding into Italy from Germany was massive. The reason that BMW and Mercedes own most of their distribution in Germany is that the German dealers are a law unto themselves.
We could never actually get any firm data from the States. The cars were acceptable in the States if the customers imported them themselves. The Americans would scream their heads off about cars flooding in. We'd say "Give us the numbers and we'll get on to it", but we could never find enough vehicles to make a big case, so it went on and on while we were desperately trying to find out who the perpetrators were, and of course there's nothing legally you can do to stop them, other than to stop supply, which is what we did in the end. But, of course, in terms of planning you're buying inventory which is unique to the German product, so you've got an eight-month cycle there before you can even stop it, building German cars whether you want to or not.

How much input did the marketing department have into future product planning?

Clive Ennos took over from Jim Randle. Clive did more to break down silos in engineering than anyone. He's dead now, sadly. He was a great addition to Jaguar; one of the few Ford guys who came in and really made a difference. Jim Randle ran the engineering function as a fiefdom. He was like a jack-in-the box: from time to time he'd pop up, and then the lid would go down again. Clive Ennos did his very best to make sure

the barriers, the Chinese walls, came down. You then had heavyweight, co-located, cross-functional teams, but that didn't happen until Ford bought the company. The XJ220 was an absolutely unmitigated disaster[138], and it was Clive who actually picked up the pieces and had to live with it for about five years, trying to get the remaining cars away. It was a completely unauthorised project. Engineering should have been focusing on the F-type, but they were playing around with the XJ220. There wasn't quite the process and discipline in place to make sure that engineering were doing what they should have been doing. The reason that Jaguar didn't have diesels for such a long time was that to the engineering guys it wasn't sexy.[139]

Were there frequent shouting matches between Jim Randle and John Egan?

No. John didn't like confrontation. That John got angry, which he could do, certainly. One of John's problems was that he didn't like confrontation.

What about the potential take-over of Land Rover in 1986/87?

I actually voted for it at the Executive Committee, but it was Jim Randle and Graham Whitehead who were against it the most. Jim certainly didn't want to share engineering. He probably knew that the engineering function at Land Rover was better than Jaguar's. John needed convincing about it, and Graham as the spokesman for 50% of the business carried a lot of weight. I think Graham genuinely believed, having been set up by Mike Dale, that it would take too much management time. They knew that they already had problems with the XJ40. The interesting thing was I'd actually been head-hunted by Land Rover just as I joined Jaguar. I told John Egan because at that time we were part of the same company – BL. I'd still got some contacts within Land Rover, so I knew this was likely to come up and tipped John that something might happen, and he put it to the Board [Executive Committee], and Randle and Whitehead were the two who were most vociferous. I was very much for it because from a distribution point of view we still had a lot of shared interests with Land Rover from the old BL arrangements. It would have given us critical mass.

How was John Egan as a boss?

He just let me get on with it. He was a great delegator as far as I was concerned, and actually he has been very kind to me since then. He never, ever, interfered, unlike Nick Scheele or Bill Hayden. Hayden, actually, in hindsight, did an awful lot to protect Jaguar

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[138] The XJ220 was built by JaguarSport, a joint venture between Jaguar and Tom Walkinshaw Racing. According to Thorley (*Jaguar The Complete Works*) the initial selling price was £350,000, with a deposit of £50,000 per car being demanded. Production commenced in 1991. Dymock (*The Jaguar File*. p70) states that a production run of 220 was undertaken, with a provision to go up to 350 cars. In the event, "the 350 'firm orders' evaporated, some in acrimony over deposits, and only 280 XJ220s were ever made". According to Dymock the price achieved was £290,000.

[139] When asked in a telephone conversation with the author on 18 July 2007 about the reason why the Italian VM diesel engine was not employed by Jaguar, as once announced by Jaguar, Putnam commented that that engine was "a 'dog'. It was very 'agricultural', and Jaguar just couldn't put it in its cars".

from the Ford culture, and was strong enough to do that. His credibility with Red Poling and the senior guys in Dearborn was such that he carried a lot of weight. Scheele was seen as a bit of a maverick in Ford and didn't quite have the credibility to protect us, although he did his very best. Poling was Bill's mentor. The Ford system works on being very close to your boss. You could be the worst manager in the world, but if you're close to your boss you're protected. As the only Ford Chairman not to have been a "Fordy" I had the great ability to see things from a little bit outside of the company.

How did you view labour relations and the managerial/worker interface?

I'd come from a non-union environment. As soon as I joined Jaguar I was astonished how we had to, not bow and scrape, but certainly get close to the convenors and so on. That was a personal observation. But having said that, the workforce were absolutely brilliant – the number of visitors I took round couldn't believe how friendly the workforce was, how keen the workers were to talk to outsiders – not run forklift trucks at them as they would in Longbridge. I never personally experienced the hostile environment at Longbridge, but people used to tell me it was awful. At Browns Lane the relationship with the workforce was absolutely amazing. Generally I think we achieved a huge amount. Bill Hayden came in and wooed the workforce by making his famous Gorky statement about Browns Lane, which was actually aimed more at them than for outside consumption. Bill had never been in a role like that of Chairman. He had never been in that spot. Ford was very, very inward focused, so he could make that comment; making it to journalists. He hadn't seen the huge value to a journalist of what he'd said. He was actually talking to the workforce when he said it. And of course Trotman made that famous statement about there being nothing wrong with Browns Lane that a bulldozer couldn't fix. We were actually building the XJ-S and the saloon on the flowline track that Bill Lyons had bought second-hand from the Standard Motor Company in the 1950s!

Why wasn't more Capital Expenditure put into the factory?

John had an absolutely impossible task. The company was floated and the government pocketed the money. Jaguar was floated with its cashflow, and a half-developed new model, so our job was to make money and satisfy the City. Make money to pay a dividend, find enough money to put into a new product. Therefore, capital expenditure for new plant, substantial plant, just wasn't available. And as things got tighter post-1986, currency went wrong for us. Even though we were getting the benefit of hedging we were always looking at the period after the hedging, what would happen then.

But you had a £75million Design Centre and an outmoded assembly line?

I think you would have had to have seen where Engineering resided – in sheds at the back of Browns Lane – to understand that they couldn't stay there.

How did you view Jaguar's relations with the City?

Neither John Egan or John Edwards had been in a public company before. I actually came from a tiny public company. I'd actually got some public company experience. Both Johns had come from Massey Ferguson. They'd both been in companies where they'd never really had any financial responsibility. John Egan has told me many times "we did our best". John has gone on to be very successful with virtually everything he's set his hands to. He transformed BAA without a doubt. John went through a very bad period after he left Jaguar. He and the Jaguar brand were joined at the hip, and he found it very hard to come to terms with the fact that he wasn't any longer in charge of Jaguar. He's long past that now. He did a lot of self-analysis. His conclusion was that we were very vulnerable, we did our best with what we had to hand, and we thought up a totally competitive worldwide dealer network, which was as good as BMW or Mercedes at that time because of the way in which we were able to get customer satisfaction ratings, when the product itself was less than good. But we did have generally an enormous loyalty to the product and the brand coming out of a dreadful background like BL.

But had a lot of the problems at Jaguar merely been exacerbated by BL, and actually originated in the Bill Lyons days?

They were innate, dating back to Bill Lyons' days. Absolutely! A highly respected journalist said that when we'd started to launch the XJ40 we'd followed Bill Lyons' original philosophy; producing something that looked absolutely fantastic, but actually wasn't. If you go back to the pre-war Jaguars, they promised so much, they looked so stunning, but they weren't particularly good. But they were cheap. Bill Lyons set out to be the cheap Bentley, or Lagonda.

How did John Egan react to the problems of the XJ40?

He struggled very, very hard. Randle used to tie him up in knots. Jim used to talk gobbledegook engineering. John didn't know enough about engineering to actually take him on, and then for a while Beasley was MD. Mike was MD three times in his career. The first time was an attempt to put Mike on top of Jim to put some rigour into Jim. There was a famous article in Car Magazine after the launch of the XJ40 saying that the wrong man had been knighted instead of Randle. Randle's credibility amongst some of the motoring journalists was such that John was petrified of the comics.[140] I guess as a company we were far too focused on the comics. I guess it comes with the territory. Most manufacturers tend to focus far too much on motoring journalists than they do on the broadsheet journalists. I think John was petrified Jim's credibility would be too great to explain Jim leaving. Yet Ford got rid of Jim without a whimper. Jim talked a great talk, and on paper was a very fine engineer, but, like so many British engineers, was not interested in the long boring slog of long term investment process. Which is why so many of our manufacturing businesses have been taken over by foreign companies who are prepared to put that long-term, long-cycle investment in to get the competitive process.

[140] Motoring magazines.

That's what Ford did; having spent $2.6billion on the company they put in another $2billion in the next four years. Browns Lane finished up as being pretty efficient, instead of a highly labour intensive manufacturing plant, the source of the problems. And we were getting No 1 or No 2 in J D Power product quality, which I always believed was a combination of the incredible passion of the workforce for the brand, plus the right tools.

What can you tell me about Ford's relationship with Jaguar?

I believe that before Henry Ford II died he told the family to buy Jaguar as it was. And that was the reason they stayed with it. But the Ford Motor Company is probably the most complex business in the world. I don't know how you can possibly run businesses with such diverse brands as Ford. It lost its brand years and years ago. Brand is a vital ingredient for such companies as Jaguar, Land Rover, Volvo, and even Mazda. Brand is what makes them products. I don't think they'll get rid of Volvo as well as Jaguar. It's making a loss at the moment. I think they'll hang in with Volvo; it's a robust business with critical mass. The biggest risk I think is the Ford managers in Dearborn who don't want to try and knuckle down and fix Ford's problems, will hang themselves on the coat tails of Volvo for some glory or advancement. Once they go out and start interfering then God help it. I don't think Jaguar's actually saleable. I think it's so inextricably linked with Land Rover they'd have to sell the two together, and therefore the current status of Jaguar would eradicate any value in Land Rover. Ford got it right until 1996 when the dream faded. If you look at the bookends, you've got Ferrari probably the most passion-inspiring brand in the car business and you've got BMW at the other end, which is a high volume manufacturer now, but with a brand aura about it. They're quite different, although they're both in the luxury sector. Their rationale and brand strengths are completely different. After Ferrari, Jaguar was the most passion-inspiring brand, and I think that as a niche manufacturer at around 150,000 cars a year you could maintain a viable profitable business, fluctuating with the economies, because the brand exists, because of its exclusivity. BMW came from the volume sector and then gained its premium. Jaguar was always in the low volume premium sector. I always said, before I left Jaguar, the brand will not go where it doesn't want to go; we've managed it there over a very long time.
For somebody to come in and make the kind of statements about fixing Browns Lane with a bulldozer or whatever was just, regardless of whether you believed it was true or not, seen as a huge insult. Trotman taunted the two Johns. He was immensely arrogant, was quite aggressive. Ford were powerful enough to pull the Golden Share. There is no doubt they leaned on Maggie, and Ridley, and that was the beginning of the end. I was actually in John's office, just the two of us, when John got the call from Ridley that they'd pulled the Golden Share. I think you'll find that the potential closure of Dagenham, reduction in Ford investment in the UK, were all wrapped up in this. Again, having spent four years as Chairman of Ford of Britain I know the way those things work. I am utterly convinced that their behaviour during the hostile takeover was such that they had been told by Henry Ford II before he died, although he'd been long gone by that stage[141], to buy Jaguar as it was. And that was the reason they stayed with it.

[141] Henry Ford II died in September 1987.

But Ford is now rumoured to be looking to sell Jaguar?

I think the current management [in Dearborn] realise that to save Ford they have to get rid of the side shows. I don't think Jaguar's actually saleable. I think it's so inextricably linked with Land Rover they'd have to sell the two together, and therefore the current status of Jaguar would eradicate any value in Land Rover.[142]

What was Egan's Strategy at Jaguar?

It was a "needs must", frankly. Yes we did want a second saloon and a replacement for the XJ-S which had been around for a long time, 25 years, which was unheard of. The XK was essentially a re-bodied XJ-S. That just demonstrated what you could do with mid-1970s technology. In fact Mark Fields[143] was quoted in the press the other day as saying "Jaguar has now become Ford's Aston Martin following the sale of Aston Martin which was inevitable". What he means by that I'm not quite sure. There were two huge mistakes that Ford managers made. They grew Jaguar too far, too fast. They saddled it with costs as a result. Even the Jaguar Board prior to the acquisition thought about closing down Browns Lane and concentrating on Castle Bromwich. Mercedes Benz now build 600,000 cars in one plant. Why on earth could they even believe that Jaguar could build 150,000 cars in three plants and make money? I saw it ahead of the time. I said "Why are we doing this?", but in Ford you get no plaudits for being "I told you so".

Was Jaguar's dream of being an independent, powerful, niche player one that couldn't actually be fulfilled?

There had been journalists who'd predicted Jaguar's downfall as an independent long before it became evident that it was inevitable. But basically, what Ford hadn't realised was (1) how antiquated the production methods were, and (2) that the product was on its last legs; it was just about to fall off into cycle. And, therefore, the huge amounts of money they had to put in at the beginning of their ownership were purely to get the production process up to some reasonable level, and replacing the cars. The XJ-S when they bought the company was ancient, but it lasted for another seven years.

With General Motors wouldn't it have ended up being the same as with Ford?

I'd actually brought GM into Jaguar. In September 1983 at the Paris Show an ex-colleague at Lotus introduced to Bob Eden for the first time. We were just chatting about things in general, how Jaguar was doing, and he said "By the way if you want a white knight just let me know". So I came back and reported that to John Egan. Jim Randle was actually very pro the GM relationship. They'd very clearly sugared him up. I was

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[142] On 26 March 2008 the Ford Motor Company announced that it had agreed to sell Jaguar-Land Rover to Tata Motors of India for approx $2.3billion, but upon closing the deal Ford would then contribute up to approx $600million to the Jaguar Land Rover pension plans.

[143] Mark Fields, Chairman, Ford Motor Company Premier Automotive Group, 2002 to October 2005, and afterwards Executive Vice-President, Head of the Ford Americas Group.

encouraged to keep in contact with GM. I was effectively left to mind the shop while the executive board were down there in London to negotiate with Ford. Mike Beasley rang me up: "John Egan's asked me to ring you up. It's got to eight pounds". Bruce Blythe is still the Ford family's adviser. It was his involvement that leads me to believe that the Ford family's instructions were to get Jaguar at all costs.

What part did John Grant play?

He took over from Bruce as the custodian of the Blue Book acquisition bible. What happened in short succession was that Petersen retired, and Poling took over. Poling had been the most vocal "do not do this" about the Jaguar purchase, which is why he put Bill Hayden into Jaguar. It suited Bill as well. Bill was the only corporate Vice President in Ford who'd never spent time in Dearborn. And when we made the acquisition, Bill was about to go and spend his twilight years in Dearborn. He didn't actually want to take on Jaguar, but it was the only route he could see to keep himself in the UK. Of course he and John got along like a badger in a bag. He called John "Sir John Ego".

Was an independent Jaguar realistic?

I don't think so. I don't think Jaguar had anywhere to go. John Egan couldn't see that at the time. He was running the business on a kind of monthly basis. John had a Micawberish view that something would turn up. And, of course, Ford turned up.

What were Jaguar's lost opportunities?

We had an opportunity we didn't take in the Land Rover deal, we could have expanded the range faster, and we could have built a better production plant instead of Whitley. The fact was that Ford had to spend another $2billion.

What were the main issues raised by the Ford transition team report?

I don't know. I was only interested in the marketing, and whether I was to be there for any length of time. It was a pretty balanced piece. It was seen from a manufacturing perspective. It didn't understand that a black art creates a premium. American business, in my view, is driven by only two dynamics: volume and price. If you get the volume right you can get the price right, if you can get the price right you can get the volume right. It's self-perpetuating because of the size of the market, and generally because manufacturing is geared to the market.

What are your views on David Boole?

David, like his mentor before him, Hopkins, who had been Lord Stokes' PR at BL, saw his main role as that of promoting John. He believed that a brand like Jaguar had to have a figurehead like Bill Lyons. Part of Jaguar's problem now is that it is seen as a featureless company that has been absorbed into Land Rover. Land Rover is the dominant player. Jaguar needs somebody as brand champion – but Ford will never do that again

whilst they own it. So, John was what David had made him: Mr Jaguar, inseparable from the brand. David was very aware of the beginnings of spin; he really was one of the early spinners.

John Egan has often said that what he was selling was leather, and old-fashioned veneers.

Yes, it was part of the black art. Like a gentlemen's club, it was the smell rather than anything substantial. It was all about touch, feel, passion, something again that Ford didn't understand. And, again, because American business tends to work on very measurable dynamics – since you can't measure brand, and you can't measure passion, they can't exist.

Transcript of the interview with Nick Scheele on 14th May 2007

Were a lot of the problems that Jaguar had in the 1980s due to the Bill Lyons' era?

I would say they were due to the Leyland days actually because the profitability that came out of Jaguar in those early Leyland days was very high. The Pound was low, and Jaguar did use some of the Leyland industry access to dealers to increase sales, particularly outside of the UK. So they did get profitability, but it wasn't reinvested in Jaguar. If you look at Jaguar's investments in the Leyland years there was incredibly little in facilities. The only significant investment came after John Egan took them out of BL. The big investment that John Egan put in was the Whitley engineering centre. Up until then engineering had been a relatively miniscule operation without proper facilities. That was true of the manufacturing facilities as well; they really hadn't had much spent on them.

What about the assembly line that Bill Lyons bought from Standard back in the early 1950s?

That assembly line was awful. There were two lines in fact. The XJ40s were going down two lines, unbelievable really. Side-by-side. But you had different people doing different operations, so you really had to be able to track the quality control papers back to which line did it. That was next door to impossible.

The new line you put in cost some £8.5million I believe.

That is about right. It wasn't very expensive. We did it on the cheap, because we had to, because at that stage we were still losing over £1million a day. We did it a year ahead of launching X300, really because we just had to get the factory into a better state. One of the problems was that the facilities were so old. Today if you go into Castle Bromwich you'll see that the floor is white, and there are no oil leaks. The floor is white because that means you'll pick up an oil leak before it becomes a problem. The floor in Browns Lane was caked in grime and grease. So, people respond, I think, to the situation in which they're placed.

Couldn't that have been sorted?

Yes, it could've done, but unfortunately it wasn't. Nobody thought it was important.

Do you think they should have taken over Land Rover in 1986?

They were offered it on a plate. They should have taken it over, but I don't think they could have managed it, to be fair. I don't think there was enough infrastructure in Jaguar. There was too much infrastructure in some senses, and not enough in others. I think it was one of the problems we had with Ford; we didn't really early on put in the right infrastructure, and that cost us as we went on. With hindsight it's very easy.

Why do you think the assembly line problem wasn't tackled earlier? Why didn't Egan tackle it?

John believed that the quality had improved. When he took over and took it private, the quality was appalling. But he then had a quality push and said that it was better. And the Series III did get a bit better, but not very much better in reality. But he believed his own PR because he went out and told everyone that Jaguar quality was now the best in the world etc etc. He didn't really see when XJ40 came out that the problems were as bad as they really were, and the problems were worse in the States if you look at the data. The data clearly show that the US car, because generally it was a higher specification, had a significant number of incremental problems compared to the European car. But they weren't acted upon, and they weren't acted upon basically because, I think, John didn't want to know. XJ40 nearly brought the company to its knees, and should have done actually.

John Edwards told me that "we came up with a car that couldn't be built".

Yes. There were some fundamental issues with the car. It had low voltage electric wiring switchgear. And that wiring was a common loom from end to end. I don't know of anybody else who's ever done a complex low voltage switching and a single loom because you drag it through the car, it gets caught, it gets trapped, it gets pinched. You then get shorts. You get all the electrical problems that the XJ40 was prone to. Compound that with some very fundamental errors: the single wiper was a fundamental error, and that gave rise to immense customer complaints. Then there were no passive restraints; there were no air bags engineered for the car. There were some big, big issues. I think the other fundamental problem was that engineering didn't talk to manufacturing, and vice versa. All of those problems were self-contained. Engineers didn't want to know about them because they were often boring. The XJ220 was the icing on that particular cake. And manufacturing couldn't get the engineers to re-engineer the product for assembly feasibility.

How much do you think was component manufacturers' problems?

Not that much. It never is. We loosely attribute: we say a third of the problems are assembly, a third are engineering, a third are component manufacture. But the problems on the XJ40 were very largely engineering in nature. They were in-house. There were some component manufacturing problems, but had that been the only issue that would have got sorted out. There were some problems on the air conditioning. It wasn't working well, it didn't work very well. Perhaps it was poor design, but it was compounded by a very, very poor air intake structure, and all around this single wiper. Entirely in our own control.

Roger Putnam told me there were suspension problems as well.

Yes there were. I remember somebody in Canada telling me about struts. There was a real problem with the struts, and I was told that they didn't use them in the winter testing that they did. They used another manufacturer's struts. Apparently they'd known all about this in the winter testing that was done in northern Ontario and they'd deliberately taken off the struts that came with the factory car and put these other struts on because they didn't rust, and the problem was a rusting problem. I took that back and the then chief chassis engineer said "No, no", and it took five agonising months of teeth-pulling to get us to say let's move to this other manufacturer, and then the problem went away. And everybody in engineering was saying "No, no it's not a problem". In the northern states of the US, where it was salt corrosion, we were changing struts under warranty.

Bob Dale of Lucas told me that one of the problems that Lucas found, particularly with the Series III, was the specification they'd been given for componentry. For example, in regard to temperature, nobody told them about the extremes that they'd be subject to in the States, and therefore it wasn't surprising that the electronics weren't up to the job.

I'm not surprised at all. There was a fuel pump problem with Series III, never recognised by Jaguar. What happened was that in the field, this was a problem in the Middle East in particular, but also in the southern US, they came up with their own solution, which was getting a different pump; a pump that could stand the temperature regimes because the cavitations[144] were caused by temperature extremes. Absolutely extraordinary! XJ40 was also subject to the same kind of thing. It had huge problems under extremes, and not even extremes, just in Tokyo summer traffic.
I joined Jaguar in January 1992. In May of that year the J D Power results came out, and on the Manufacturers Initial Quality Survey there were thirty-six manufacturers and Jaguar was thirty-fifth, kept out of last place by that stellar European import called Yugo. That is how bad it was. The States used to call the XJ40 the 101 Dalmatians; the great big vehicle with 101 black spots all over it that had no fixes, no fixes. When you piled through what the causal factors were you found that water leaks was a huge problem, paint finish was another massive problem, windshield was a third great problem, and electrics was the fourth. There were the four packages of problems. But water leaks was number one. It was no surprise. Our own water leak test results showed that nearly 90% of all cars didn't first time go through the water test. We knew that, and you could blame the water leak group or the weatherseal supplier. But the reality was that we had to get the door gaps right, we had to get the door opening right, and we had to redesign the flanges, and the seal system. Now everybody said we can't do that, and for whatever reason there was a huge dichotomy between engineering and manufacturing. Bill [Hayden] had tried to sort that out, but eventually what I did was get a guy called Jim Portillo over from the States and Jim had responsibility for engineering and manufacturing, and purchasing. And out of that started a series of meetings, which are still going on to this day, which got engineering and manufacturing, and purchasing

[144] "Cavitations" is the term given to the formation of bubbles, or a vacuum, in the fuel, resulting in engine misfiring, or shuddering.

together to fix specific problems, out of which came a whole redesign of the XJ40, which fixed it. It did fix it, so it was fixable. The electrical problems had to wait until the X300 when we put in a proper wiring system, with separate units, junction boxes etc.

RISTS were the sole supplier of the wiring loom. Would the single loom have been their design or would it have been a Jaguar-imposed design?

I don't know, I wasn't there at the time, but my suspicion is that it was a Jaguar-imposed design. There was nobody who used a single loom end-to-end. So, the side lights and the tail lights were on the same loom. What a nutty system! And you have the high voltage system and the low voltage actuation system. My suspicion is that Jim Randle had a hand in that, but I don't know because I never knew Jim Randle, but my suspicion is that a lot of that came from him. He had some strange ideas.

Roger Putnam told me that the biggest problem was that Jim could run rings around John Egan so that whenever John Egan ran up an engineering problem Jim would just talk his way out of it.

That is what I understand. One of the reasons Jim Randle gave for the windshield problem was "ionisation" of the windshield. What a load of old codswallop! The reason was the single wiper, and the actual wiper mechanism lifted off the window at higher speed. So, did we ever really solve it? No! We got it a hell of a lot better by getting a more forceful and better aerodynamically tuned wiper blade, but it remained a problem until we got rid of the single blade. I'd heard that Randle had Egan twisted round his little finger because Egan wasn't an engineer.

But John Egan wasn't only not an engineer but he wasn't a car manufacturing man either.

No, John had no comparisons. One of the huge issues that was around at Jaguar was that you couldn't say "Well, what's your experience of this?" because they were independent from their world. They thought they were good by comparison with Longbridge. I remember some Jaguar people saying they were as good as Mercedes!

Were Quality Circles still going on when you joined?

They were allegedly going on. But people hadn't been trained in all the techniques that you need to be trained in before Quality Circles have any use because they weren't dealing with data. What they were dealing with was "I think it's this" or "I think it's that" or "I say, you say". I would have to say that they never kept pace with the massive changes that had happened in the 1980s when, really, western manufacturers started to wake up to modern quality control methodology, and they just hadn't experienced that. The two things that Ford brought in were process and process discipline. Ford clearly understood these. We started sending Jaguar people into Ford in the summer/fall of 1992, and came back and started doing what process said. It actually worked. Ford don't follow

more than 60% of process, but Jaguar follow 100% of the process. It came around pretty quickly.

One of the things you did was to get the headcount down. How difficult was that?

In the event it wasn't that difficult. When I arrived a lot of people thought I'd arrived to close the door. We had a contract coming up in the November of 1992 which meant wage negotiations. Everybody knew we were losing money; we'd had factory floor presentations on how much, and it was getting worse. I think 1992 was the low point in terms of sales. In 1992 we sold 20,000 units.[145] That was the ultimate low. John Egan had got it up to 50,000 and then it came off.[146] The unions thought we were going to ask for a wage cut, and there had been talk of 10%-15%. We sat around and said "Yes, if we do that we'll reduce our costs by say 1%". Internal manual labour was under 10% of the cost of a vehicle. When you're losing 35% on sales it's infinitesimal. So what we decided to do instead of doing that was to go for a wholesale works standards improvement and also to say that when we put in the new track for the X300. We knew that would throw up a lot of labour savings. We also knew that coming up was that we'd have to close Radford because the new engine had to go to a modern manufacturing facility, and we had Bridgend. It was a nonsense to think we were going to put it in Radford which would never be able to get up to speed. So we told the unions that instead of asking for a wage reduction we'd give them an increase for this year of CPI plus half a per cent and next year's CPI plus half a per cent but in return we wanted to abolish three layers of supervision. We wanted to go for a team leader concept. We wanted individuals also to have within their team leader areas responsibility for quality. For the measurement of the quality, and the delivery of that quality. We would change all the work rules re demarcation. We will have to allow engineers to work on the line so that they can see the problems. Previously that had not been allowed. There was a whole variety of other things. The unions nearly bit our hand off to accept. We then implemented every last paragraph of the agreement. It worked for us. It was better sized, but more importantly the workforce was actually working on quality, and the demarcations had gone. So we got rid of supervisors: foremen, general foremen. It was just a whole set of change to the operation. It had to be brought in by manufacturing management who previously had been handcuffed by a wage agreement.

[145] Jaguar Accounts for 1992, filed at Companies House, show total production of 20,337 units, and wholesales of 21,797 units, but retail sales in the year (as reported in *Automotive News*) fell 33% to 16,489 units.

[146] The peak year was 1988 with production of 51,937 units, and wholesales of 50,603 units. (as can be seen in Table 4.3 in the main text).

John Egan had put in this new supervisory level to manage the production process, and since that is one of the things you took out how then was the production process managed?

What we had done in preparation for putting in the single track through 1992 and into 1993 was to train people. We did this in conjunction with NQVs.[147] We wanted to train everyone in statistical process control, and in process management. In preparation for switching over to the single line everybody working on XJ40 was going to have a new job. We asked everyone to define their job: to write down a process sheet for their job. That enabled us to devolve the process management and the quality management to the guys on the line. And that enabled us to take out the supervisory level who weren't doing that anyway: they were firefighting most of the time. And they were firefighting because it wasn't just the manufacturing process that was out of control. We never really knew what vehicles were coming down the line. The process was wrong. It was fundamentally flawed.

It appears that when Bill Hayden took over he got nothing but cooperation.

Yes, but Bill could only get down so far. Bill sorted out some really basic problems, but at the end of the day management is really only going to sort out the top level, because the real issues beyond that can only be sorted out by the guys who see them every day. So you've got to have them trained to know what it is that they see, not that it looks wrong, but that we've measured it and its outside tolerance. And it's a non-repeatable operation. And those are the kinds of things that we really had to train the workforce on. The workforce was then given the power to do something about things. That was the big change.

Why do you think the Egan management never tackled these problems?

I don't think people did. It wasn't Jaguar alone. Halewood was always a basket case. Everybody at Ford had given up on Halewood, but Jaguar took it over and David Hudson went up there. He had really put in the changes at Jaguar, and he did the same thing at Halewood, which was really involving the workforce. Previously nobody wanted to hear what the shopfloor was saying. That's how the auto industry ran, and really we were fundamentally flawed because the people who knew most clearly what the problems were were the people who confronted the problems every day. And involving them in the definition of the solution of the problems was not something that came naturally to the auto industry. It's not the way to go about it. It defines the "them and us", and locks in place a structure that is totally out of date because what you want is the knowledge to be the guy who is putting the thing together.

[147] National Vocational Qualifications (NQVs) were introduced in 1986 by the government to develop and maintain national standards of occupational competence.

What about employee costs?

They had got out of control. It was absolutely ludicrous. When we [Ford] arrived we had 12,000 on the payroll, and I think that two years later we were down to 6,000.

Engineering vs Manufacturing. Was that a personality thing, or was it empires?

It was the Jim Randle empire against the Mike Beasley empire. I've heard from lots of people that they were hammer and tongs at each other.

Do you think that Egan was realistic in thinking that he could turn Jaguar into another BMW?

I think he genuinely believed that, but he realised post XJ40 that it couldn't happen. That's when he started talking to GM. If we had today's labour stability, and level of training of the workforce back in the early 1980s it probably would have had a chance of succeeding. I left the UK in 1978 for the States, but I'd been in purchasing for Ford of Europe since 1966. Most of management's time was consumed by problems caused by labour issues; wildcat strikes, ports closing. Every day there was something coming up, which meant that long-term planning and execution was absolutely at a premium certainly in the British motor industry, and I think in the majority of British industry throughout that period. Now people would say that that changed with Maggie, but it didn't really change until Maggie's second term, 1984 onwards, and didn't start to bite until the late 1980s. So management in the 1980s was consumed by the drip, drip, drip of unanticipated events. So I don't think it could have happened. In today's environment I think it would be far more likely to be capable of happening, but it still needs a long term commitment. The biggest thing, apart from process discipline, that Ford brought to Jaguar was the knowledge that you could plan on long term funds being available. The 300 programme I took to the Ford board in April of 1992, and we got the funding for it, and we said this is going to be Job1. Now this had never happened in Jaguar before. We said that Job1 was going to be August 1994, and that is what we were marching for. Now previously Jaguar had gone up and down. Funds were available for this six-month period, but we've got to clamp down for the Results, make the Results look better, but it made capital expenditure look like a bloody yo-yo! And it really shouldn't go like that. Once you're on a programme it should go very predictably. And you could plot it. So Ford gave Jaguar the ability to take a long-term view. John never had that capability because he was really trying to serve too many masters. BMW had that capability because they were family-owned, and it was a very, very stable German economy, and they were taking a growing segment of the market. I think stability has a lot to do with what you can do.

Do you think a big issue for the Jaguar management at the time was the fact that it was quoted so they had to look over their shoulders all the time at City

I don't think it was a big issue, but it was an issue. Because Jaguar was quoted they decided they had to have a London presence. So they took a long-term lease on a flat near Saville Row. Now you don't really want distractions like that.

What about the relationship between Browns Lane and the States?

There was also total antipathy between Browns Lane and the States. It was total, it was almost total warfare. Mike Dale and his predecessor used to come to Browns Lane once a month for the monthly meeting, and the dealers used to come over once a year or whatever. And they were at total odds with the Brits. Basically I believe that Jaguar engineers were engineering cars for trolloping round the Warwickshire countryside, and they didn't design cars with any knowledge of what the US conditions were like, and we suffered massively as a result. And that suffering was translated into almost total warfare between the States and Browns Lane. It was just crazy, and that was a huge problem that Jaguar had, and there are echoes of that still going on today actually. The profit earner was always the US, but that was always when the Dollar was strong. It was amazing. In 1992 we had no cup holders in the car, we had no airbags, we were not making changes to the US car. We were making them to the rest of the world car, so in 1992, the sixth year of the XJ40, we've still got all the original quality problems, and we've not had a single visual enhancement of the vehicle since launch. And we didn't have cup-holders, and that was because the two sides were at odds. Jim Randle didn't believe in air bags. Nobody believed in cup holders. "Why would anybody have a drink in a Jaguar? You don't go to MacDonalds in a Jaguar". It was really bizarre. So we then had lost the US market. We also didn't have a lease company, and 75% of luxury cars in the States were sold on leases. That was bizarre as well. So it wasn't just engineering. We were just locked into a British view of the world.
A lot of the US dealers were solo dealers, so they didn't have anything else to push. I think it was in large measure a Jaguar problem. Yes, we had a quality problem, but not to have a lease scheme was absurd, particularly since the largest leasing company in the world was Ford Motor Credit. Well we didn't have that because we didn't want the word Ford on a Jaguar credit document. That was true. So we had to knock a lot of heads to get a lease programme in. Who the hell cares, but there was a lot of "Ford thy shalt keep thy hands off Jaguar, and never let it be sullied". This for a company that was 35 out of 36 in the J D Power survey. Those were the kind of things that were going on. I was in Mexico when we took it over and a letter came round saying "No Ford person shall set foot in Jaguar without the consent of Bill". That was Ford management, but Bill was not averse to it. So there was no knowledge transfer. It's difficult to think back, but that was the case when I arrived. For instance we were still running accounts in the way Jaguar had always kept them. We didn't really know what the Series III manufacturing costs were. We were still producing Series III up to 1992 for the US market. It was pretty clear that they were horribly expensive. And the XJ-S was fundamentally an early 1950s design, stretched and stretched, it had manufacturing inefficiencies coming out of its ears, but we didn't know

their cost. There were no systems integrations – none of that started until 1992. So there were no synergies.

There were comments in the papers from John Grant and Bill Hayden in 1991 about how Ford had already identified £50m in purchasing savings.

It's not true. It wasn't true.

How efficient was the purchasing?

I don't think it was very efficient. It did have some good prices. It got tyres from Pirelli at below full cost. Now one of the reasons for that was Pirelli used the Jaguar brand. They were exclusive to Jaguar, and they gave very, very good prices. They were hyper-competitive. Purchasing at Jaguar lived in a separate building at Browns Lane to which no other members of the company had access: locked, coded. It was its own little fiefdom. Jaguar had lots of fiefdoms.

Did Ford make a mistake in buying Jaguar?

Ford bought Jaguar almost sight unseen, and what we bought was a can of worms, with no new models in the sausage machine. We paid too much for it. A frigging fortune!

Transcript of the interview with Lord Trotman on 3rd February 2003

Ford were tracking Jaguar for some time. What was your first contact with them?

I was the first Ford man over the wall, literally the first Ford person at Browns Lane. I went to see Egan in his lair and break the great news that we were interested in Jaguar. Petersen had phoned me and said "We've been talking it over; we're really interested". "We" meant the States because I was still here at that time. I was Head of Ford of Europe. "Why don't you go up and see if you can see Egan and tell him that we'd really like to make an offer". So I phoned Egan's office and said "Could I come and see you" and all that. Naturally he said "What about?" I said "Well we don't want to talk about it on the phone, it's a private matter" and all that. He presumably smelled a rat. Anyway, I got into the car, went up there to Browns Lane, walked in, and said "To get to the point John", I'd never met him until then, "Ford is interested in acquiring Jaguar". He said "Oh, well that's a non-flyer if ever there was one. We've no interest in that. We're going to stay independent. Elephants don't sleep well with hedgehogs". I remember that was a wonderful metaphor he used. "We'll just get crushed. The elephant rolls over in bed and crushes the hedgehog. We're a small company, you're a giant. We don't think it would be a good arrangement at all, so we're really not interested". I said "Surely we should discuss it?" He was a little bit tetchy, but not rude. It's not that we were laughing and joking about it. It was very serious, and he was so tetchy. When I got to know him a bit later it was business as usual. John is quite a Yorkshire man,[148] he's not great on small talk or anything. He's quite a gruff chap. In any event he was quite gruff, but not really unpleasant. He said in no uncertain terms that he wasn't interested. I said " Well, can't we discuss alternatives to a full take-over. A partnership or something?" It didn't matter how we approached it John just said "No, we're not interested". I don't recall exactly how the meeting was arranged, but maybe I asked him at the time "Well would come and meet my boss when he comes over from the States?" And we met in Grafton Street in Mayfair. We had a London office there. We had a nice dining room in the basement there, and Don Petersen and I met John there. John's was the same speech all over again. And so it came to nothing.

The Ford Motor Company's view at the time was it's either friendly or it's not going to happen. Since John said it ain't going to happen we decided, the Board decided, that we're not going in with a hostile. That must have been 1988. Shortly after that, very shortly after that, I was hauled over to America to become Head of North America. So I was out of it. Maybe a year later, it must have been within a twelve month period, the Board decided "We're tired of sitting around here. If we can't do it friendly we're going to do it unfriendly". I wasn't personally involved in it. I was secondary, sitting in the Board meetings, listening to all the chat and backchat etc. I was involved at that level, but I wasn't over here involved in the negotiations with Jaguar. So I was only in a limited way involved in what happened. I was only sitting listening to the debates and was there at the Board meeting when it was approved that we make the offer that was finally accepted. I was involved in a Ford 2000 kind of a way because I went up the ladder to become President, and, so, I was involved in Jaguar again. I was going up and down looking at the new model development and talking about how much investment we'd put

[148] Egan was actually born in Lancashire, and spent his boyhood in Coventry.

in and debating should we admit we'd made a mistake and just say "We all make mistakes, we've made a big one. Screw it, let's fold it up". We had those discussions quite a bit in the years following the acquisition. I hung in. I'm glad I did, as was Wayne Booker who was my executive in charge of all international operations, including Europe. Wayne was very strongly in favour of hanging in, and between Wayne and I we several times persuaded the board "Please, we've jumped into it, let's not give up too quick, let's hang in because we think we can make the thing work". We did, largely due to Wayne, and Bill Hayden, and Nick Scheele. A good team of people.

Going back to 1988 when you first met Egan, did Ford have any idea just how many problems Jaguar had?

Well we all knew the jokes about the English drinking warm beer because Lucas makes the refrigerators and all that. It was called "The Prince of Darkness" and all those jokes about three-position switches: On, Off, and Flicker. So we knew through a lot of anecdotes, jokes, and, in some cases, personal experience. You had to have two to make sure you had a reasonable chance of going anywhere; you had to have two Jaguars because one was always in the shop. We knew all that. But it was hostile, so we never really had a good look inside the factory before we made the acquisition. Some of the Ford executives, to my dismay, were free with their language with the press, Bill Hayden saying it was the worst thing he'd seen since Gorky. Since we'd recently been negotiating with the Russians on putting investment into Russia we'd been to various factories in Russia, and if you haven't seen those you haven't seen anything. So Bill in his usual forthright and hard way to get his point across makes this statement to one of the tabloids "It's the worst thing I've seen since Gorky". Bill was the man who finally got the British trade unions to go to Japan and see what they were doing over there, getting the Brits to accept that these guys are formidable competitors. They really do do the things everybody says they do. It's not a myth. They actually do it. They really do produce twice as many transmissions an hour as we do and all of that and the quality really is a damn sight better than ours. Anyway, Bill, who was the real Messiah on quality and productivity and all that, he goes into Jaguar and he was stunned by what he saw.
It was reported, which I may have said, but I can't remember saying it, that Trotman said "There's nothing wrong with it that a good bulldozer wouldn't fix". This is just after we'd agreed to spend a fortune to buy it, so we weren't too popular with some of our supervision for some of those statements, or alleged statements. I wasn't hands-on in the sense that Bill was by a mile. Bill was an old manufacturing man and was deeply into the detail of it. He said he had finished body panels stacked on the floor, didn't even have pallets for them. Had the bloody stuff coming off the press and the guys just stacked the panels up, nestling them into each other, and sitting on the bloody floor. He said you wouldn't believe it. And then that gets into hand work to repair the panels, you know, sanding and everything to get the scratches off. Material control was hopeless, quality was hopeless, and the discipline of the line by Ford's standards was appallingly bad. It was a big shock to the Ford manufacturing guys who went in. It was a huge shock just how primitive it was. And then the product development was almost non-existent. So we were very glum about all of that. It was going to cost a lot of money and a lot of effort, and a hell of a lot of team building, and a hell of a lot of Ford intrusion to get the

manufacturing standards up, the product development standards. The one thing that sticks in my mind is that we were impressed by, to our surprise, some of the real product development talent that was there, particularly in engine development. We thought arrogantly, like all good Ford people do, especially having just put our nose in the tent and seen some of the stuff I've just talked about, we concluded very quickly and arrogantly, we're not going to learn anything from these guys. There's nothing in it for us, it's all going to be one way. And as it turned out it wasn't. I think there was a lot of talent there in the aesthetics; in the interior trim; in the Englishness bit, which was one of the big attractions. One of the reasons for the acquisition was it was unique. It was English and we wanted to retain that, and there was a lot of talent which I would describe as British talent that you wouldn't find in Mercedes or BMW. It was the way they did the seats and the trim and the instrument panels and so forth. That was a valuable presence there. And then suspension and handling, ride and handling development was as I recall our guys said "Well there's some talent there we can use". And then I specifically remember how impressed the Ford guys were with the engine technology that we found there. So I don't want to paint the picture that it was totally a heap of crap and all the people were useless. That wasn't true at all. In engineering product development there really were some very good talent.

And yet that is the area that seems to have had the most criticism.

Yeah, but that, if I think back on it, would be primarily underinvestment rather than lack of talent. The manufacturing bit of it was way under-invested. The basic training, the discipline, and the confidence that we just took for granted in any Ford factory at that point was light years behind. It was like Ford had been like in the 1940s or 1930s. It was that that was the biggest shock.

Who do you blame for the under-investment?

I don't know who to blame for that. I wouldn't blame anybody. John Egan said that one of the things they'd done, to his great glee, was to create a lot of sizzle without there being a lot of bacon there. They didn't have the cash flow, they didn't have the resources, or the borrowing capability to invest a hell of a lot. So they were limping along and keeping the thing going with the sizzle. With talk and the odd little tiny piece of product excitement here and there. I don't know how they quite managed to do that. And there's this wonderful tradition of Jaguar going back for yonks and they just managed to limp it along, but it was an accident on the way to happen.

Did he understand that he was under-investing?

It never occurred to me that he couldn't. If he didn't it would be amazing to me that a chap in that position, in his role, wouldn't understand that. He must have had the benchmark data. He must have known how much you have to spend per £100million of revenue if you're running BMW or any of the premium motor companies.

John Edwards said "Of course, none of us had ever launched a car. None of us had ever done it, and we had no concept of the problems that we were going to have with the XJ40, and how much it was going to take in terms of investment"

Well maybe your view is accurate, but I can honestly say that it had never occurred to me that John might be deluding himself. I just always assumed "Good for John, he played that one beautifully. He had a weak hand of cards, but he played them marvellously in convincing the world that he had a good thing going and he was perfectly comfortable, and things were coming good and that the last thing he needed was for someone to come along and take him over". It never occurred to me that he actually believed all that.

How did you deal with labour relations at the time? What state do you think they were in?

The labour relations were bad. As I recall, there just wasn't the discipline. There were people who were doing things that were unthinkable in Ford. Absenteeism was Hellish. Sick leave was way out of what we would consider normal. I know Ford had to go in very hard and say "We're going to fix this or the whole thing's going to be a catastrophe". "It's this way or no way" is what the Ford people essentially had to do; go in really hard. I think Scheele and his guys did a very good job in there. I think they weeded out a lot of people in line supervision and got people to do simple things which we think are normal these days; getting people to dress in blue coveralls and all be clean and turn up on time, and work in teams, and take personal ownership of the product and all of those kind of things we just think of as normal. All of that stuff was presumably like going back to kindergarten for the Ford guys, but it was "We're going to get these people to do this stuff". Before I left Ford, which is four/five years ago, the reports you'd get back certainly seemed to be corroborated by the words of the presentations as one walked down the production lines. There was a complete transformation. It was like going to a Japanese factory or a really good American factory. People smiled, looked you in the eye. Pride, team work were evident. It was as though the Japanese had been in. It was a huge, huge transformation from 1980-89.

How much of that was fear? I've heard Bill Hayden's management style was terror.

Bill would subscribe to the concept that fear and greed are the only two motivations that matter. I think he would have used, and we would have encouraged him to use it, those of us who felt some responsibility for the acquisition. And there was a high level of anxiety in the years following this acquisition. We spent a hell of a lot of shareholders' money. On what? In the first couple of years there was a high level of anxiety. "Oh my God we've got a real dog here!" So, Bill had all the encouragement to just go and fix it. Bill's a very hard manager, and he was in Ford, he was in Dagenham, he was in all the German factories, he was in Spain. Bill's a take no prisoners, kick ass and take names kind of disciplinarian, and I think those methods were applied in Jaguar in full measure.

If we go back to 1989 when Jaguar were talking to GM, Ford had the deal lined up with Saab, which nearly went to the wire. What tipped Ford going back and going all out for Jaguar?

I remember that we were toying with a lot of ideas. We toyed with Alfa Romeo. I don't know if that's in the public domain or not. We were on the point of signing with Alfa Romeo. I was within an hour of it happening, and Craxi[149] and Agnelli[150] pulled the plug on us. It was a really terrific piece of Italian teamwork behind our backs which pulled the plug from right under my feet when I was literally within an hour or something of signing on behalf of the company for the acquisition of Alfa. So we thought about it, practically everybody you could think of to get a name plate, to get a brand above the Ford brand, because we had tested it enough times to have convinced ourselves that we had a ceiling in terms of price and revenue on the Ford brand. We could do anything we liked, we could stand on our heads, we could produce a car that was better than BMW in every detail, but if it was called a Ford you couldn't price it above a Ford Scorpio. You couldn't sell many because people would still say "I want my BMW, I want my Jaguar, I want my Merc, or my Alfa". So we crossed that bridge, but the only way we were going to get up to this lucrative piece of the market place was to get another brand. And we also debated the Lexus approach of "Do we build it ourselves? Brand X?" We thought that we might, but that we probably would fail. So we never crossed that bridge. But we had a real hot spot for Jaguar, and then for reasons that are not in the public domain I know, and can't be, our number one choice of all would be BMW, but we couldn't bring it about. The answer there really was No! In six foot letters! Henry Ford tried it going back to the 1960s, and in the 1970s. Every decade or so we had a bash at it and the answer was always "There isn't any possibility". We almost closed on Alfa. We almost closed on Lancia. We almost merged Ford of Europe with Fiat, and one of the attractions there was Lancia because that was the brand we didn't have, or could have been the brand we didn't have. We had discussions with PSA. I think I met them all. The Fiat one failed because Henry Ford and Agnelli couldn't agree on who was going to run the joint. That was essentially it. The huge lesson there was before you get a thousand people spending a year working their butts off on something get the two principals first to agree on the principles before you do that. So that was a hard lesson I learned there. We exhausted ourselves and then got the two top guys saying "Well that won't work". We could have saved ourselves a hell of a lot of time. Anyway, that didn't work. Alfa didn't work because we got double-crossed. The PSA one didn't work for various reasons. So we got onto Jaguar. I think it was by a process of elimination.

Was there a fear back in 1989 that GM was going to beat you to it?

Yeah, oh yeah! I don't think I know to this day how much substance there was to the fear, whether it was a rumour, whether they were planting stuff that scared the crap out of us, that made us overpay which was in a time-honoured tradition in the auto business. If you know someone is going to do something you may not want to do it yourself but you want

[149] Bettino Craxi, Prime Minister of Italy 1983-87. Infamous for taking bribes, he fled to Tunisia to avoid prosecution.
[150] Giovanni Agnelli, Head of (and principal shareholder in) Fiat.

him to pay the maximum, so you start being voluble. I'm still not sure if GM was really interested or if they just were trying to get us cranked up.

Egan seemed to hate Ford for some reason.

He did, yeah, for some reason. I don't know if it was personal, or what. Anyway, I was up in Birmingham making a speech and I invited John and he was as cordial as anything. We talked about the acquisition, we talked about Gorky and all that, the jokes, hedgehogs and elephants and everything. He seemed to have no hard feelings at all. We made him quite rich.

In regard to Ridley's announcement about the Golden Share being terminated. Did Ford have negotiations with the Government at the time, because if you look at Margaret Thatcher's autobiography she can't praise Ford highly enough. She was really upset that the deal over Rover didn't go through.

We went to see her. We let it be known that when the rug was pulled on Rover (another rug pulled!) we were really mightily upset. And we got an invitation to go up and see her at Downing Street, which was a memorable occasion. I went up with Don Petersen. The Foreign Secretary of Russia had just seen Ronnie Reagan, and he was on his way back to see Gorby[151], and was stopping off at Downing Street right after she was seeing me and Petersen to brief Maggie on what Ronnie had said and on what he was going to say to Gorby. So I went there to talk about the bloody auto business and how pissed off we were about Rover and all that and how things were going at Dagenham and Halewood etc, and she was talking about ICBMs and what Ronnie should do and all that stuff. It was a fascinating thing. She was excited and she was talking away like a machine-gun. We were there at least an hour and we spent, at most, two minutes talking about Rover. I'm not exaggerating. She was saying sorry I suppose. That's what she was doing, being courteous, receiving us, and saying "Sorry, but I'm not going to talk about the auto business and all your problems with the auto business, and I'm not going to be specific about that stuff, but I'm going to be cordial". It was fascinating. It was like being right at a seat at the inner table there, listening to that stuff real time. Then she concluded that meeting with us by saying "Oh, the Russian ! I've got to rush off and change". But that was post the Rover thing. So we were upset, very upset, and let her know that. "We're the oldest auto company in Britain, we're the first manufacturer in Britain, we're the biggest employer, the biggest investor the biggest everything, and you treat us like crap!" We didn't quite use those words, but that was the message.

Is Ford a good steward of the Jaguar brand?

When we bought it, the American design team swooped in and thought "Right, we'll show these dim British bastards how to design cars properly. The next new Jaguar will be designed by us". These guys swooped in from the States. It was interesting how that worked out because Bill Ford Senior, who's still on the Board, has always been a Jag buff from way back, intervened and re-balanced the input into the new Jaguar. "So, okay, the

[151] Mikhail Gorbachev, Head of State of the USSR, 1985-91.

Ford guys can help with all the systems development and engineering systems, quality control, and by all means put the Ford air-conditioning in, and all those Ford things that weren't going to be seen by the customer, but leave the English guys do it." Looking back I think that was a good decision, a very unpopular one with some of the heavy hitters in the design fraternity. We were going to move the first car to Portugal because we couldn't justify the investment here, but we did justify it with some help from HM Government. I went to see Heseltine over it. He was by then President of the Board of Trade. I said "Too bad for the Brits because we're moving this car to Portugal", and the car stayed here. It was in the early days of the joining of the cultures that Bill Ford Senior intervened and said "Don't be too heavy-handed with the Detroit influence on Jaguar aesthetics. Get the heavy hands off. Be as heavy as you like with engine blocks, transmissions and steering, brakes, climate control". But on the aesthetics his call was "That's what we bought. A lot of what we bought was the Britishness of the car. Let's be careful we don't put too heavy an American hand, or even German". There were some heavy German hands on it as well. There was a bit of a danger for a while that we were going to turn it into a BMW or Mercedes type of vehicle. Big, square, practical, take the sex appeal out, let's have it functional to the Nth degree. It's still early days. We're only 13 years into it. To me we're only in start-up mode. It's really early days. Building a big auto company is not a five-year proposition. I think ten years is a short time. I think that if you look back after twenty years, say in 2010, that would be quite a good time to do a full accounting. I'll bet you money we did a smart thing. Land Rover and Jaguar. Ford is going to make these brands sing over the next decade or two. They'll become larger all over the world.

Transcript of the telephone interview with Jake Weidinger on 19th May 2008

When did you first get involved with Jaguar?

My Dad started selling Jaguars in 1938. This is actually our seventieth year in business. When I was 17 or 18 I used to work in the Summers. It was a very different business, and very small. Then when I got out of college and the Marine Corps I went to work for him in 1964 as the fifth employee and we were selling about 50 or 60 Jaguars a year at that time, and some Mercedes and Ferraris. That was the business. I was the Service Manager from 1964 to 1979 when I took over the business. In 1981 I was the number one Jaguar dealer – I sold 101 cars in the US. In 1982 I was the number one dealer – I sold 202 cars. Thereafter the business exploded. In 1967 we had six or seven different Jaguar products – that was the last time we had that many. In 1982/83 Jaguar all of a sudden started becoming very popular. Most dealers in those days were a Chrysler dealer or a Cadillac dealer and had Jaguar as a sideline. There were a few people who had MG, Triumph, but nobody had any great volume. There were five or six distributorships through the country. In 1982/83 Jaguar were very popular and dealers were scrambling to buy the franchise. The franchise picture over the next few years changed dramatically –there were over 150 dealers who'd built facilities. With a popular franchise people were making nice money, nice return on investment, and it was going pretty good.
I remember when John Egan first came over to the US . There was a meeting in Leonia, New Jersey. All the dealers came in. He had everybody going. He and Mike Dale were great orators. He promised the dealers that the power steering leaks would stop, and everybody got up and cheered him. One dealer got up on the table. It was a source of great joy because here we'd got this straight guy coming in and business was going to expand. It was very promising. In the 1987 model year I sold 1,000 new [Series III] Jaguars – we were the largest dealer in the world at that time. The XJ40 came in May 1987 for the 1988 model year. Our sales were still good for 1988, 1989, 1990. In 1991 I was the number one dealer and sold 212 cars.
That's our history with Jaguar. We went from a normal 15 employees up to 75 during those years. We had 28 technicians. There were four different buildings we operated out of. We would change transmissions, differentials, engines while we'd take the ladies up to this shopping centre. Three technicians would change differentials (a five hour job) in two hours, and then go pick them [the customers] up and bring them back, and not even tell them. We'd say "We've fixed the whine". We'd not even tell them what we'd done. The Series III was a pretty good car. It had its faults, but it was reliable. It had been out for a long, long time. It wasn't particularly modern. The dealers started selling a lot of Series IIIs. The car was manageable. The XJ40 had many, many faults, and what was the bad part was it had faults that couldn't be repaired. We could replace motors and transmissions; we could fix leaks; we could fix different things when they failed. There was a high rate of failure. Things like when you're going up a hill at 60mph and the shifts wouldn't operate effectively. It would struggle to get up - it was clearly an engineering problem. There were quite a few of those. There was something basically wrong with the air conditioning/heating system.

UK managers of the time have told me there wasn't much of a problem in the UK. A lot of the problem was the fact that the US model was far more complex because it had more bits on it as standard and also that the US dealers didn't go the extra mile that they should have to sort the car out. How do you react to that?

Only an Englishman would tell you that! Without the US selling what they sold, and without the commitment of the US dealers, Jaguar would have had to pack it in a long, long time ago. We'd go over there and we'd look at the sales results; if you'd just look at the numbers during that time you'll see that England trailed considerably behind the US. The main difference I think as far as the customer goes is....a slight exaggeration, but people will get in their car in New York and decide to spend ten days on the open road and drive to California without checking the oil or air pressure, and they can put thirty or forty thousand miles on the car and all the advancements in those days used to come from people in the United States. For example, the air conditioning was always years behind with Jaguar because they didn't deal with it on a different basis, and the amount of miles that people put in, and the consumerism in the United States: it is a different market. I don't think the British over there understood that as well as they should. When Bill Hayden took over he had us over there – he'd been there about a month. We were in a meeting with him and he said "You know we're losing $10,000 on every car that we sell. Why should I sell more cars?" And he took the volume down from 25,000 or 30,000 to 10,000 in 1991.[152] That is why we only sold 212 of them. He recognised that they were so badly built in terms of quality that he had to stop it.[153] I can remember they were looking for plant for the XKS and they couldn't get the trunk to fit properly and they found out there were no engineering drawings for them. It was just typical. Bill Hayden was a good executive, but he was a brutal guy – he had a bad trait of publicly chewing out people in front of others – and he went in there and changed the operation. He did a lot of things, but he brought the quality back up in a tremendous way. And we were dealing with that. In 1989 as much as 25% of our sales were replacing people's 1988 models to avoid lawsuits. It was awful. They were driving these cars and they would come in and complain, and complain, and complain, and we couldn't fix some of the problems.

[152] This statement is something of an exaggeration. As can be seen in Figure 5.8, and Tables 4.2 and 4.3, in the main text of this thesis, Jaguar sales in the US at this time peaked at 24,464 cars in 1986, and in 1989, the last year of Jaguar's independence, US sales had fallen 22% to 18,967 cars, a figure that remained largely unchanged at 18,728 cars in 1990. In the following year, US sales nearly halved to 9,376 cars, but much of this was due to the economic downturn and the quality issue.

[153] Mike Dale was asked about this and he responded as follows in an e-mail to the author on 26 June 2008: "Bill didn't stop shipping cars for poor quality, but he did stop shipping them because one model went into negative economic profit. In other words, we were losing money on it before it got to the end of the assembly line. It caused considerable stress in the US because it was the lower priced XJ40 and was the lead in our advertising. We had to work really hard for a few months shifting cars around the country to meet customer demand and avoid the wrath of the Federal Trade Commission".

Were these engineering problems, as opposed to production build problems?

There were problems, for example, with rotors and the braking system. The rotors and brakes would squeak and they would become warped. We could replace the brake pads and we could replace the rotors, and the vibration when you braked would go away, but we couldn't replace the spongy brake pedals or redesign the master cylinders on a car. We couldn't up the torque on the car's transmission, and power train, to make the car accelerate properly under a load. We could replace windshield wiper motors, fix oil leaks, and wind noise, and replace water pumps, and all the things that would fail. Many years earlier, in 1974/75 they had an XJ12 that when it got hot, as in the Summer, the car would stall when it was going to make a left-hand turn. If it was 80 degrees it wouldn't stall, if it was 90 degrees it would stall on a left hand turn. We could never fix that. The XJ40 was full of that. Now we had all these dealers around here that had put $4million/$5million in a facility that had big sales and needed to take care of the customer but weren't able to. It was just a mess. In '87 when the Series III was there, and even when the XJ40 came along, they built the door by hand and every door was a different size, so when a customer came along with wind noise at 40mph we'd fix it for her. But when the next customer came along we'd fix that, but it wasn't the same problem – each car was hand-built. It was constructed by hand. The XJ40 was an advancement but the measurements weren't correct. The assembly process was faulty. Every Jaguar that Ford builds today is exactly like the other one – the specifications and tolerances are exact. We didn't have that – the English were the last to install that in assembly. The average person in England probably drove six or seven thousand miles a year at that time – in the US it was over eighteen thousand. It's a different base. I think if you canvass the dealers they'll tell you all pretty much the same thing. It was a nightmare. The car started getting good around 1994/95. The 1995 XJ was a great car, but Ford did that. I think that the management knew that it [the XJ40] was not very good.

I spoke to John Egan....

I must tell you that he was held in great esteem by the dealers in the United States. He made himself available to the dealers. He wanted to build great cars. He had a sparkle in his eye, and a lot of charisma, and he was probably the best salesman I've ever seen in my life. And he was a great leader. And we were very grateful for his contribution. He kept the thing rolling.

Can I take you further back. You started at a time when Bill Lyons was still around. Did you meet him? Did you get to know him at all?

I didn't get to know him, but my dad knew him. I have a few pictures of my father with Bill Lyons. You know the whole thing after that was a real mess, you know with the changes – Jaguar-Rover-Triumph, British Leyland and all that. It was so nice when John Egan came along because he pulled everything together. Thatcher was Prime Minister then and she and Egan thought the same about unions and privatising and all that. It worked out very well for us. We used to watch him when he was around on the assembly

line and speaking to the union people. He'd got a nasty streak about him. His demeanour changed completely. He did not like his workforce. He wanted to change it.

You mentioned earlier about the volume taking off in the early 1980s. Why was that? Why did Jaguar suddenly become popular in the States?

The Series I and the Series II and III were all pretty good-looking cars. The Series III by 1980 had more or less been perfected. It worked very well. It was a nice size, and it was a pretty car, and it was a competitive car. It just caught on – the stars were lined up properly. Compared to the XJ40 it was a very good car. It had some of those things that would go, but you could deal with that. It handled beautifully. It was a nice little car. It would be totally bad by today's standards because everyone's gone so far past that, but it was the right car.

But by 1979 Jaguar had a pretty bad reputation in the US didn't it?

It was a reputation that still lingers, although it's pretty much gone now. It was very tough overcoming it.

Mike Dale was telling me that the research that they did – that is, Jaguar in the US – showed that by 1990 about three-quarters of the luxury buying market wouldn't even go into a Jaguar showroom...

That was always the problem. Our problem was always getting people to come in. Even today we're not on a lot of people's lists. Today, Lexus, BMW, and Mercedes dominate in our market. I'm also a Cadillac dealer and Cadillac, which would sell around 200,000 cars a year in the US, still isn't on a lot of people's lists.

In the late 1908s you had Lexus and Infiniti coming out. How much of the downturn in Jaguar sales in the late 1980s was down to these Japanese models coming out, and how much was down to the fact that the XJ40 had such a bad reputation by then?

I was one of the founding Infiniti dealers. They took market share, there's no question about it. But if they hadn't been there I think the results would have been the same. Let me give you an example of what happened. In 1959 or 1960 Renault sold hardly anything in the US. They changed something in the car, the Dauphine, and they sold almost 100,000 cars. About eighteen months later they went out of business. They'd sold 100,000 bad cars. In May 1987 through to the following May to September I sold seventeen hundred bad XJ40s. I must say that Jaguar, to their credit, would pay, pay, pay, and pay to repair them. They never said no to the customers. In 1989 rather than have people who had 1988 Jaguars sue them they would try and get some money from them and put them in a new car. It was awful. Jaguar started knocking away at it and in a few years the car was a lot better. Parts were a horror too. In every manufacturer there's always a part that fails and you can't get them because no one anticipated the failure. With Jaguar there were some things you just couldn't get!

Keith Williams

From: "Michael Dale" <airdale70@hotmail.com>
To: "Keith Williams" <kcwilliams@ic24.net>
Sent: 06 October 2008 22:33
Subject: Interview June 17th 2007

Dear Mr. Williams,

This is to confirm that I was aware that my comments on Jaguar were being taped during the interview that took place on June 17th and that I gave you permission to use my comments as you saw fit.

Sincerely.

Mike Dale

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Keith Williams

From: <radale@aol.com>
To: <kcwilliams@ic24.net>
Sent: 04 January 2009 04:43
Subject: Jaguar Research

Dear Keith

I would like to confirm that the interview you conducted and recorded with me on 3rd May 2007 was with my full approval, and that I have no problem with the information being used in the research in your Jaguar project.

Best wishes

Bob Dale

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Keith Williams

From: <John.Egan@severntrent.co.uk>
To: <kcwilliams@ic24.net>
Sent: 03 November 2008 12:54
Subject: Sir John Egan/Jaguar Research

Dear Keith

I confirm I gave permission for you to tape the meeting we had on 30 October 2007, and for you to use the information obtained in compiling your thesis.

Kind regards.

John Egan

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Keith Williams

From: "Sarah Winfield" <sarah.winfield@pendragonplc.com>
To: "Keith Williams" <kcwilliams@ic24.net>
Sent: 23 December 2008 08:45
Subject: Thesis

Hi Keith

Just a quick email to confirm that you have Trevor's permission to tape the interview and for you to use the information obtained in compiling your thesis.

Good luck with it and Merry Christmas

Regards

Sarah Winfield
Chief Executive's Office

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Keith Williams

From: "Andrew Lorenz" <Andrew.Lorenz@fd.com>
To: <kcwilliams@ic24.net>
Sent: 07 October 2008 16:00
Subject: Interview, August 7 2007

This is to confirm that I gave permission for my meeting with Keith on August 7, 2007, in relation to his Jaguar thesis, to be taped and for the information provided in the meeting to be used by Keith either in whole or in part.

Andrew Lorenz
Chairman
Financial Communications

FD

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Keith Williams

From: "Nicholas Scheele" <nvscheele@yahoo.co.uk>
To: "Keith Williams" <kcwilliams@ic24.net>
Sent: 04 November 2008 16:17
Subject: Interview

Keith---the purpose of this note is to confirm that Keith Williams interviewed me at my home on May 14 2007. We discussed recent Jaguar history and the interview was taped with my permission and any material may be used by Keith in writing his thesis

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