A tale of Geely and Ford: in the pursuit of shareholders’ value

Check Teck Foo
School of Management, University of St Andrews, St Andrews, UK
COMMENTARY

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One of the most intriguing, if not even a landmark event within the global automobile industry happens on March 28, 2010: Ford Motors finally disposes off Swedish Volvo for $US 1.8 million to Geely (in Chinese characters, 吉利; pinyin as jì lì) Motors. Why is it likely to be seen as a landmark event? After all, it is simply a part of the serial sales of products leading Ford Motors’ to be deeply niche focused. Earlier, March 26, 2008, Ford sold off for $US 2.3 billion, the two major products, Jaguar and Land Rover to Tata Motors. A strategic move that is consistent with what Porter in his US grounded theory of competitive strategy will applauded.

Following my interview (Foo, n.d.) with Chartered Financial Analyst, India, I discovered both Ford though a seller and Geely a buyer seem to be enacting a similar strategy. What is known by the term of “Strategy-Value Model”. Recently, Stegmann (2009), an integrative thinker, hailed the managing of strategic value to be (in flap of the book cover):

[...] integrating disciplines such as industrial economics, game theory, transaction costs economics, agency theory, the resource view of the firm, knowledge management and intellectual capital [...].

In my opinion, other than knowledge management and intellectual capital, the others as cited are but differing perspectives all within common discipline of economics. However, he hits the nail on the head when he emphasizes a critical role for integrative, or I prefer holistic thinking in strategy.

In this commentary, I intend to develop his strategy-value model one step further by contextualizing it within the case of Ford and Geely. One good aspect of the model is its easy operationalization: measured by shareholders’ value simply in terms of the price of stock or simply prices of shares. Ford and Geely provide a very interesting pair, a West-East case-study on the impact of a single perhaps even momentous event: the much publicized selling by Ford and the buying by Geely of Volvo. From the perspective of the shareholders for the buyer, Geely Motors did gain an appreciation in the value of shares. Indeed, Reuters reported as follows[1]:

Geely shares jump 5 percent after parent’s Volvo deal.

In the week that follows, the Geely share prices are an upward slope. However, in contrast, the situation for Ford as the seller, it is exactly the opposite, downward sloping. The shares of Ford are seen to be downward sloping over, more or less the same period. One may infer, in the immediacy of the deal, the shareholders of Geely are far more
jubilantly, supportive of the transaction than Ford's. Or rather, the observed price behavior is consistent with the popular logic: asset acquisition is seen as an act of strength whilst disposal of a major product, is generally viewed as one of weakness.

Here, I am using a cognitively more immediate approach by mirroring abstracted patterns in the share price changes. As shown in Figure 1, the upward, positively sloping curve found for Geely may be contrasted with the downward, negatively signed curve. In other words, news of the transaction had exactly opposite effects for the seller (Ford) and the buyer (Geely). To properly interpret the event and especially from a strategic, shareholder value perspective, one has to take a longer term view. That is to cast the view backwards, to say within a year.

Looking at Figure 2 and away from the immediacy of the deal, arguably both Ford and Geely may be said to be pursuing the same strategic goal: enhancing the stock market value. For rising share prices are indisputably in the interest of the shareholders. Both Ford and Geely are successful in what Stegmann had prescribed in the art of strategic value management. In both cases, the stock market values of the shares for both of Ford and Geely had been most strikingly, on separate yet consistent paths upwards (this is abstracted as patterns in Figure 3). Visually, one may even argue, the share price trends are strikingly interesting for another reason: both appear to be almost on parallel with each other, in rising over the last year (i.e. May 2009). Our approach here is to mirror broad patterns of market share prices as broadly reflecting shareholder value.

Since any strategic goal ought to be pursued over a much longer time horizon than a year, to complete our discussion, we first generate the charts of Geely and Ford as far back as to January 2006. Having done that, we then as presented here, the broad, cognitively easily recognized patterns. Now, an even clearer picture emerges. One that suggests both publicly listed corporations operating within the automobile industry had begun to converge - or it seems from the emerging, easily recognizable patterns - towards embracing the strategy-value model. That is as indicated, sometime in and around the early period of 2009 in enhancing shareholders' value.

In the case of Geely, after a period of more or less of on the average, a flat trend in share prices (A, January 2006 till around early January of 2009, B), the stock market value of the shares began to surge upwards (B to C). In the case of Ford, shares were

![Figure 1. Contrasting patterns upon news of sale](image-url)
Figure 2.
Pattern of share prices of Geely Automobile and Ford Motor

Figure 3.
Abstracting the overall five-year patterns of the share prices
on a slant downwards (A to B) before sliding to a bottom (point C, early 2009), reminiscent of the US subprime crisis. Then it scaled upwards (D). If you are prepared to ignore downward kink of Ford at B, you may well say that Geely and Ford appear to the same pathway of corporate development.

So, from a longer term perspective and up to this time of writing this commentary, both corporations, Ford and Geely may clearly, at least on an empirical, statistical basis upon which these cognitive recognizable patterns are derived from, be said to pursue a common strategy: enhancing shareholders’ value. What makes it intellectually interesting is in Stegmann’s (2009, p. 27) proposal that such strategy-value approach (he uses, model) becomes a bridge for linking of stock value creation and strategic management. This raises an interesting question that we can ask of both Ford and Geely. How does the sale and purchase of Volvo create value for both of their stockholders?

Here, I will try to respond without going into too much historical background of either Ford or Geely. For Ford, an early pioneer of the mass car manufacturing lines, it is much easier to put a finger on. The sale of Volvo robustly signifies to the stockholders, Ford’s determination to stay, in terms of product range, with a narrowly focused, niche market. What the typical US stockholder probably fear most is of investing into a firm having too unwieldy, indeed over-extended product portfolio. Thus, the disposal of Jaguar, Land Rover and Volvo by Ford signals to current and potential stockholders, the keeping to a very clear strategic focus. Consequently, one may observe in 2009 and up to till April 2010, an upward trend in Ford’s share prices. Ford’s strategic moves had already brought stockholders, enhancements in their values.

In the case of Geely, it is in the purchase of Volvo which suggests an altogether different connotation. For when compared with Ford’s more than a century of manufacturing cars, Geely is still very much a novice. Thus, the very likely opinion of the stockholders, the purchase of Volvo will bring about the very much needed know-how, technical, manufacturing and other areas of expertise. In particular, for what Volvo is globally renowned for besides reliability, is in car safety. Indeed, after the spate of accidents involving products such as milk and toys, Chinese Government too realized the necessity for changing the perceptions of Chinese made products. Thus, the purchase of Volvo by Geely will very likely be perceived by stockholders to be in line with the goal of creating value for their stockholders.

Note

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Corresponding author
Check Teck Foo can be contacted at: fc30@st-andrews.ac.uk

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