

The Proton-Rover Saga: A Business History Approach

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Abstract

The objective of this paper is to present some comparative findings on Proton, a car manufacturer in Malaysia and Rover Group, a British automobile manufacturer. The paper used a 'Business History' methodology tracking the exploits of the two firms from 1980 to 2000. Two in-depth interviews were conducted with two key informants – Nadzmi Salleh, former CEO of Proton and John Towers, the former CEO of Rover Group. Apart from that, the study also utilized secondary documents from various sources such British Aerospace and Honda Swindon. Proton and Rover are sources of national pride for Malaysia and England respectively. Yet their financial performance over time were said to be poor. Some efforts by the respective governments and the management of the two firms to improve the performance in both firms were highlighted. In terms of the current status of both firms, Proton is still surviving but Rover had been defunct since 2005.

Keywords: Business history methodology, British Leyland, narrative analysis, Proton, Rover

1. INTRODUCTION

The automotive industry has been the main drivers of the economies of developed and developing countries in the post World War II era. The term *automotive* was created from Greek *autos* (self), and Latin *motivus* (of motion) to represent any form of self-powered vehicle. This term was proposed by Elmer Sperry, a member of the American-based "Society of Automotive Engineers"(SAE)(STS, 1968).

The aim of this paper is to show some findings of a reflective study on two automotive firms – Proton from Malaysia and Rover Group from England. The two firms were not among the best in the world or even in their respective regions. But their operations were sources of learning for organizational management both in the auto industry as well as in other relevant industries.

1.1 Qualitative research design

Before continuing with the analysis of Proton Holdings and Rover Group, the paper wishes to describe the methodology which is adopted for the study. Qualitative research is a method of inquiry employed in many different academic disciplines, including social sciences and natural sciences (Denzin & Lincoln, 2005). In addition, it covers the field of business and other non-profit context.

Qualitative research is said to be a broad methodological approach that encompasses several research methods. The objective of qualitative research varies with the disciplinary background. For instance, a psychologist seeks to gather an in-depth understanding of human behaviour and the reason for such behaviour. Qualitative methods examine the why and how of decision-making, not just what, where, when or who (Denzin & Lincoln, 2011). According to Creswell (2013), there are five main approaches in qualitative research – narrative research, phenomenology, grounded theory, ethnography, and case study. Narrative research is sometimes called "Business history" (Hansen, 2012). The term 'narrative' comes from the "verb "to narrate" or "to tell (as a story) in detail" (Ehrlich, Flexner, Carruth, & Hawkins, 1980, p.442). The narrative research or business history is used when you have individuals who are willing to tell their stories and you want to report their stories" (Creswell, 2008, p.512).

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1.2 Origin of business history

Business history deals with the history of business organizations, methods, government regulations, labor relations and impact on society. It also includes biographies of individual companies, executives and entrepreneurs (Harvey, 1989). It is related to economic history. Business history was founded by Professor Gras of Harvard University Graduate School of Business Administration in 1927 (John, 1997). He defined the field's subject matter and approach, wrote the first treatise in the field and helped Harvard University to build a tradition of scholarship as well as the leading library in the field. He edited a series of monographs in Harvard Studies in Business History. He was also the editor of the Bulletin of the Business Historical Society (1926 – 1953), a journal which later became the Business History Review.

However, Business history in the U.S. took off only in the 1960s with high volume of product and innovative methodologies (John, 1997). Scholars created theoretical explanations of the growth of business enterprise, the study of strategy and structure (Fligstein, 2008; John, 1997; John, 2008; Laird, 2000; McGraw, 2008). The government – business relationship became the focal point of study (Laird, 2000; McGraw, 2008). In general, research in the 1960s affirmed the conclusions of previous decades regarding the close interrelationship between government and business enterprises (Fligstein, 2008).

1.3 Role of Harvard Business School in advancing business history as a research tool

Harvard Business School (HBS) since the early part of the 20th century had propagated the teaching of Business History as an important course in its MBA program and also as a research tool together with case study research (Cohen, 1973; Cruikshank, 2005). Over time, the HBS faculty members have made notable contributions to the history of business. It should be emphasized that the HBS faculty research is diverse, based in several of the School's units and reflects the disciplinary backgrounds in economics, history, sociology, strategy and political science.

Two main HBS contributions with regard to Business History can be seen in its publications – the Business History Review, a renowned journal and the Harvard Studies in Business History. The latter is a series of scholarly books which dated back to 1931 (www.hbs.edu/businesshistory/Pages/default.aspx). The series include books by Mira Wilkins, Alfred Chandler Jr., Vincent Carosso and other distinguished pioneers of business history.

1.4 Comparative background of Proton Holdings and Rover Group

Business History was used to study the two firms. Proton Holdings (Proton) and Rover Group were the two automotive firms which were strongly linked to their respective national governments; Proton to the Malaysian government while Rover to the British government. But the history and the surrounding events to their existence were different. The survival of the firms can be attributed to the leadership of the two countries. For Malaysia, it was Dr Mahathir Mohamad who became Malaysia's Prime Minister in 1981 while for England it was Margaret Thatcher who became Prime Minister of England in 1979 (Blake & John, 2013; Mahathir Mohamad, 2011).

Both firms are sources of national pride to Malaysia and England.

Table 1: Comparative background of Proton & Rover

| Item | Proton Holdings | Rover Group |
|---------------------|-----------------|---------------------|
| National Leader | Mahathir | Margaret |
| Base Country | Malaysia | England |
| Type of Auto Firm | Car | Multi type |
| Track record | Set up in 1983 | 100 years tradition |
| Trade Union Culture | Flexible | Strong |

Rover Group is not a single car manufacturer like Proton Holdings. It had 100 years track record and tradition in producing cars, buses and lorries. Previously, before the mid1970s, Rover group was not a single company. It existed as individual vehicle companies with reputable brand names like Mini and Rover. These vehicles were marketed domestically in the United Kingdom as well as overseas. But by early 1960s, these individual automotive firms were seen to be losing their technological capabilities (Blake & John, 2013). The British government decided to consolidate the various vehicle firms into one single company initially called "British Leyland" and later relabelled it as "Rover Group" (Interview with John Towers, former CEO of Rover Group). The idea was to protect the "Britishness" of UK automotive industry (Blake & John, 2013). However, the strong culture of

unionism in the United Kingdom (UK) made it difficult to practice effective management techniques like collaboration with foreign partners (Blake & John, 2013).

Proton Holdings, on the other hand, is a single car manufacturer. The idea of establishing a ‘National Car’ company was mooted by Dr Mahathir Mohamad in 1979 (Mahathir Mohamad, 2011). It was set up as a joint venture company with Mitsubishi and Mitsubishi Motor Corporation (MMC) in 1983. The Malaysian government was represented by a government company called “Hicom”. The general objective of Proton was seen by many industrial experts as a move to set up a “national car company”. But the actual agenda was bigger than that. It was to develop the vendors to supply parts to Proton; the vendor system program was successfully developed in Shah Alam city (Interview with Nadzmi Salleh, the former CEO of Proton). Presently there are 350 vendors in Proton’s database. Could this be regarded as a success for Proton?

The question was why Proton chose a Japanese company as a joint venture partner? It did not have to be MMC. But during Mahathir’s tenure ship as Malaysia’s Prime Minister, most economic initiatives were linked to his “Look East Policy” (LEP)(Sundaram & Wee, 2014). LEP meant every business decision must be learnt from Japan. In the 1970s and 1980s, the adoption of “Total quality management” (TQM) by Japanese firms was widely known worldwide (Sundaram & Wee, 2014),

In terms production capacity, Rover had less problems as they possessed large plants which were capable of producing vehicles at their Longbridge and Cowley plants in UK. Proton initially had one plant in Shah Alam city with production capacity of 400,000 car units per year. But over time since it began production in 1983, Proton was only producing on average about 150,000 car units per year. Industrial experts regarded this as producing at below capacity. They agree that the minimum production level for an automotive firm in order to survive or break-even was 350,000 units per year. Later Proton built a second plant in Tanjong Malim city with a production capacity of 500,000 units per year. However, the timing of establishing the new plant was not right as it was in a recessionary period (Interview with Nadzmi Salleh). Consequently, Proton did not produce up to the optimum capacity as the automotive market in Malaysia and outside of Malaysia were bad and limited (Mohmad Yazam Sharif, 2000). This situation affected the financial performance of Proton over time. Part of financial performance was production performance of Proton (Figure 1 Domestic sales of Proton).

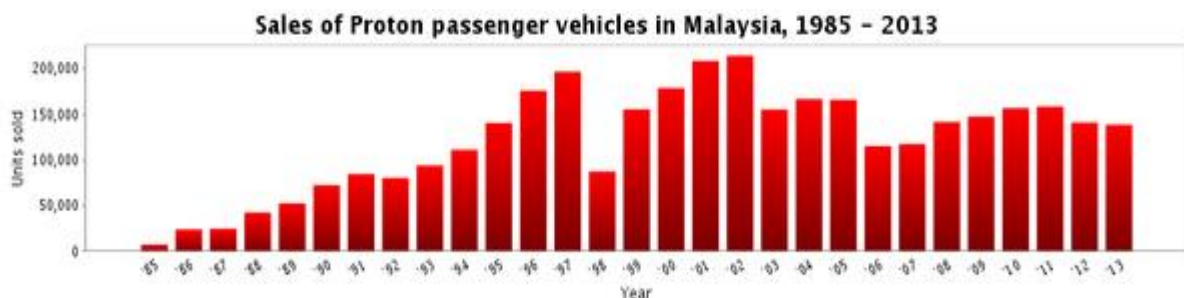


Figure 1: Domestic sales of Proton

The main market for Proton-made cars was the domestic market in Malaysia. Proton's sales grew at a stable rate in the first decade, but plunged in 1998 due to the 1997 Asian financial crisis. Nonetheless, Proton bounced back and recorded its highest sales volume in 2002 at 214,373 units. Sales gradually decreased in the following five years due to cheaper and more competitive offerings from Perodua. Proton's sales have recovered slightly since 2008, but their market share is in a current state of decline. Proton has sold over 3,500,000 cars in Malaysia between 1985 and 2013.

1.5 Detailed background of Rover Group

The Rover Group was formed by renaming BL plc in 1986, soon after the appointment of a Canadian Graham Day to the position of Chairman and Managing Director of BL by British Prime Minister, Margaret Thatcher (Adams, 2008). Since 1979, Thatcher’s government had been practicing its privatization policy reflecting that the British government could no longer shoulder huge management expenditure in running its public companies (Cragg & Dyck, 1999). It should be noted that the privatization policy was also implemented in Malaysia by Mahathir Mohamad, the then Prime Minister of Malaysia.

After divesting of its commercial vehicle and bus manufacturing divisions, the company then consisted of the car manufacturing arm called Austin Rover Group and the Land Rover Group, This group was sold (privatized) to British Aerospace (BAe), an aircraft company, in 1988 for Sterling pounds 150 million (Adams, 2008).. BAe retained Graham Day as joint CEO and Chairman but made Kevin Morley the Managing Director of Rover cars. The Group changed its name again 1989 to Rover Group Holdings Limited (Pilkington, 1996).

On 31st January 1994, BAe, feeling strain of managing a non-related business, sold Rover to German vehicle manufacturer BMW for Sterling pounds 800 million (Pilkington, 1996). The takeover caused an uproar in the British House of Commons (parliament)(Pilkington, 1996). The Britishness of UK's automotive industry had been tarnished. However, as a business, Rover Group continued to survive under BMW's leadership. The image of Rover Group as a automobile company was still retained. Figure 2 reflects the Rover logo which was widely known in many parts of the world.



Figure 2: The Rover logo

A point of interest in Rover's history was that in the late 1970s, the top management of Rover (British Leyland at the time) decided that the company needed a new Japanese engineering technology and Honda was chosen as the likely partner in a "technical collaboration" between Rover and Honda. (1977 – 1994)(Faulkner,1995). Honda withdrew from this collaboration when Rover was sold to BMW. BMW put some investments into Rover to enhance the company. But BMW failed to develop the company. In 2005, Rover became defunct.

1.6 Detailed background of Proton Holdings

Proton Holdings Berhad (stylised PROTON) is a Malaysian automobile manufacturer. It is headquartered in Shah Alam, Selangor and operates an additional manufacturing plant in Tanjung Malim, Perak. The company was established in 1983 as the sole national car until the emergence of Perodua in 1993. Proton is a Malay acronym for *Perusahaan Otomobil Nasional Sendirian Berhad* (National Automobile Company Private Limited).

Proton was largely a manufacturer of badge engineered vehicles from Mitsubishi Motors between 1985 and 2000. The company has since produced several indigenously designed models and operates in at least 26 countries today, mostly in Asia. Proton used to be owned by Khazanah Nasional, the investment holding company of the Malaysian government. In January 2012, it was taken over by DRB-HICOM, a Malaysian conglomerate in a transaction amounting to RM1.2 billion.

In terms of corporate, the firm had previous used the logo in Figure 3. On 16 February 2016, Proton unveiled its new corporate logo and a new slogan, "It's in the Drive!" (Figure 4).



Figure 3: The old logo



Figure 4: The new Proton Global logo

The old logo had been used by the firm since 1983. The new logo can be considered a 'rebranding' of Proton in its quest to become a global player. However, industrial auto experts in Malaysia believe Proton needs to become a better learner because it has a lot to learn so as to become a more competitive automotive firm.

1.7 Data collection and analysis methods

The data were collected mainly from secondary sources and in-depth interviews. The secondary sources comprised mainly books and newspaper reports. The interviews were in the form of in-depth interviews with two key informants – Nadzmi Salleh, the former CEO of Proton Holdings and John Towers, the former CEO of Rover Holding. They were critical decision-makers of the two firms for the period of study. For the interview, an interview protocol with five open-ended questions was developed. The interviews were tape-recorded and transcribed. The transcripts were analyzed and the results were reported in this paper.

2. THE LESSONS LEARNT FROM PROTON AND ROVER

Scholars and practitioners can learn valuable lessons by analysing the two firms. Proton was set up as a new joint-venture company with Mitsubishi Motor Corporation (MMC) to learn Japanese management, work ethics and technology from them. Rover Group had consolidated several automotive firms to come under one roof. It had a long automotive tradition with 100 years track record. But its management and technological tools were slowly becoming obsolete and outdated by the late 1970s when compared to new Japanese competitors in the world market. Rover's management then made an important key decision by making a technical collaboration with Honda of Japan. Rover management too wanted to learn from the Japanese. But Rover's technical employees were not so keen. The lesson in Rover was that any new innovation could not be done just by the managerial staff only. Every employee must embrace the idea of innovation and change (Faulkner, 1995).

Both Proton and Rover learning experiences can be based using the Life Cycle Model (LCM). Normally an LCM has four stages – start, grow, mature and decline (Figure 5).

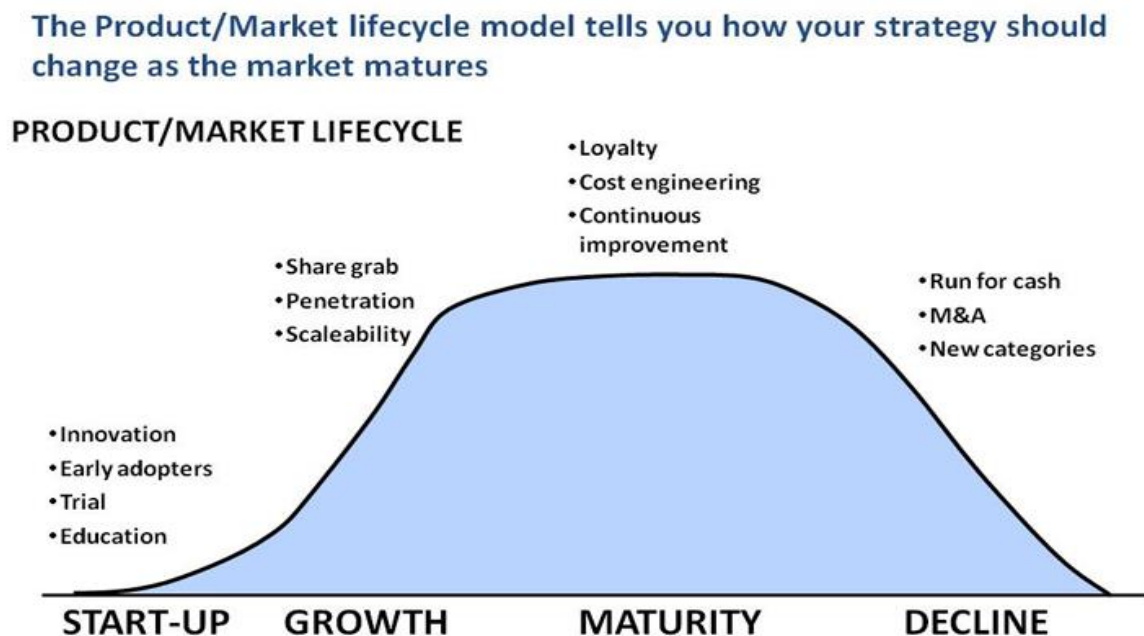


Figure 5: Product/Organizational Life Cycle Model
Source: Levitt (1965, p. 115)

For Proton, it started as a fresh start-up joint venture company in 1983 (Figure 4). The Malaysian employees in Proton had very little experience both in management and engineering. It was claimed that Proton's employees had a productive learning process from their Mitsubishi Motor's counterparts. (Interview with Nadzmi Salleh, former Proton's CEO 1993 - 1996).

Rover, however, was an old established automotive company with 100 years tradition. The only lacking with Rover was its obsolete British technology. It was in the maturity stage (or probably the declining stage). Then Rover's management decided to engage in a technical collaboration with Honda. It was claimed that the collaboration was "alright" but not effective (Interview with John Towers, former Rover's CEO 1992 - 1996). The Rover's employees were resistant to learning from the Japanese partners.

Towers added that “Honda had helped the company by introducing the lean production techniques but Rover did not really have a ‘learning culture’. There were strong trade unions that resisted improvements to efficiency where this was seen to lose jobs...” (Interview with John Towers, former CEO of Rover).

3. THE FUTURE OF BUSINESS HISTORY IN STUDYING PROTON AND ROVER

As Business History is a methodology that can be used to connect the past, the present and the future of organizations, it has a bright future in the field of social science research especially in management (Creswell, 2008). Business History research does not focus on strengths of organizations that lead them to achieve success only but also focuses on the weaknesses of organizations which hinder them from achieving success or cause them to fail. Managing organizations is becoming more complex with rapid technological, economic and social progress. Organizational managers need fresh ideas to help them make important decisions to move forward. These ideas may come from the experiences of organizations in the past. Learning from mistakes of others is still one of the best ways of making effective decisions in the future.

4. CONCLUSIONS AND LIMITATIONS

This paper is not so much about Proton and Rover. It is more about highlighting the importance and usefulness of Business History or narrative analysis as a way of doing research. Harvard Business School has pioneered this particular methodology and has developed it into a discipline as well as a research methodology. Ideas from the past can be uncovered and analyzed. Important lessons can be derived from past history of organizations. Certain organizations survived because of the role played by national leaders. In this paper, Dr Mahathir Mohamad, the former Prime Minister of Malaysia, was instrumental in creating Proton as a national car company while Margaret Thatcher (deceased), the former Prime Minister of England, was responsible for ‘privatizing’ Rover Group so as to ensure its continued longevity. In the mid 1990s, Dr Mahathir Mohamad also privatized Hicom’s share (representing Malaysian government’s share) to a private Bumiputra company called DRB, an automotive company belonging to Yahya Ahmad. Privatization was perceived as a means of increasing the efficiency of automotive firms like Rover and Proton. In this regard, Margaret Thatcher and Dr Mahathir Mohamad shared similar views.

As any piece of writing, this paper has its limitations. The findings were based on secondary documents and in-depth interviews of two key informants from the organizations concerned. Probably more interviews with former managers of the two firms would enhance the quality of the findings.

ACKNOWLEDGEMENTS

I would to acknowledge UUM for funding this project and the informants from Proton, Hicom, British Aerospace, British Leyland and Rover Group.

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