BusinessWeek

Daimler's Fumbles Are Firing Up Europe's Shareholders; Finally, investors are becoming angry enough to throw their weight around

Gail Edmondson. **Business Week**. New York: Apr 19, 2004. , Iss. 3879; pg. 52

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Section:	*International Business: COMMENTARY*
Publication title:	Business Week. New York: Apr 19, 2004. , Iss. 3879; pg. 52
Source Type:	Periodical
ISSN/ISBN:	07398395
ProQuest document ID:	618254391
Text Word Count	651
Article URL:	http://gateway.proquest.com/openurl?url_ver=Z39.88-2004&res_dat=xri:pqd&rft_val_fmt=info:ofi/fmt:kev:mtx:journal&genre=article&rft_dat=xri:pqd:did=000000618254391&svc_dat=xri:pqil: fmt=text&req_dat=xri:pqil:pq_clntid=9269

Full Text (651 words)

DaimlerChrysler Chief Executive Jurgen E. Schrempp endured hours of stinging criticism from shareholders on Apr. 7 in Berlin, including multiple calls for his removal. So did Schrempp's mentor and key backer, supervisory board chairman Hilmar Kopper. Both were excoriated at the annual meeting for destroying more than $40 billion in shareholder value since Daimler's ill-fated merger with Chrysler Corp. in 1998. At the time, Schrempp promised that the move would transform the German luxury-car group into the world's No. 1 auto maker.

Investors worldwide know what happened instead. The company is still laboring to turn around Chrysler, while dealing with catastrophic losses at Mitsubishi Motors Corp, which may need up to $7 billion from Daimler and its Japanese partners to fix. The No. 1 auto maker? Dream on. "The board no longer has the confidence of shareholders," says Klaus Kaldemorgen, director of DWS Investments, one of Germany's largest fund managers. "Don't think we will put up with another five years."

But did all this Sturm und Drang actually mean anything? After all, despite numerous calls for his ouster, Schrempp won key votes at the meeting by a large margin. He still has the backing of major investor blocs, especially Deutsche Bank, Daimler's largest and most important shareholder and the institution that Kopper used to run. A belief in Germany that CEOs merit multiple chances to fix problems also helped. Finally, Schrempp pledged to return Chrysler to profit in the U.S. this year on the back of new models. He vowed to consider every option, no matter how draconian, in ending the Mitsubishi crisis. And the stock is well off its abysmal lows of 2003.

Yet the theatrics at the Daimler meeting do matter, especially when seen in the wider European context. It's open season like never before on the CEOs and supervisory boards of Europe Inc. On the same day that Daimler shareholders voiced their outrage, shareholders in money-burning Eurotunnel ousted the entire board of the Anglo-French company, including CEO Richard Shirrefs. Such a revolt was inconceivable just a few years ago. It comes not long after after the forced resignation of Royal Dutch/Shell Group boss, Philip Watts. He wanted to stay on after a furor erupted over the misstatement of reserves, but faced mounting investor dismay that left the board no alternative but to act. Investors in Europe are clearly flexing their muscles. Those examples should put Schrempp and his board on notice that long-term tenure is not guaranteed.

More important, in the German context, is the issue of who is doing the protesting. In prior years, activists and shareholder gadflies have tossed verbal stinkbombs at Schrempp and Kopper. But everyone knew these were mere nuisances. This time the protests -- in a full-throated roar -- came from the cream of Germany's asset-management world, including DWS and Deka Investment, which represents the savings banks and is the second-largest fund in Germany. They are asking tough questions. "How do you justify $48 million in remuneration for the [DaimlerChrysler] management board when BMW gives its management $13 million for a better performance?" asks Michael Schneider, a Deka fund manager. Because several big funds and the representatives of minority shareholder groups opposed a move to ratify the board's actions in 2003, the company got 87% of the vote. That is seen as a sharp reprimand in a passive shareholder culture where 99% approval of such measures is routine.

If key elements of Germany Inc. start to turn on Daimler, then this annual meeting could mark the start of the real revolt against management, not the end of it. What can Schrempp and his managers do? Performance is the only thing that helps. But most of all, Schrempp has to realize that his goal in life is to make shareholders happy. Many sure are unhappy now.

[Illustration]
Photo: Photograph: UNDER ATTACK: Schrempp faced calls for his ouster PHOTOGRAPH BY ANDREAS ALTWEIN/EPA PHOTOS

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