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# **AN ANALYSIS ON THE STRATEGIC RECONSTRUCTION UNDERTAKEN BY VOLKSWAGEN LTD.**

Authored By-Ashok Neelakandhan<sup>1</sup>

## **Abstract**

The automobile industry is not immune to economic, regulatory, or technological shocks. Each shock should be thoroughly investigated, and appropriate management action should be taken. Volkswagen's sheer managerial efficiency and brilliant decision-making helped it to become the industry's market leader. Based on market conditions, the company has used various restructuring mechanisms such as mergers, acquisitions, takeovers, joint ventures, partnerships, and so on. This paper is a study of Volkswagen's growth as well as an examination of the company's various strategic restructuring initiatives.

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## **1. Introduction**

The world is developing at a very fast pace. Science, Economics, etc are taking us further day by day. They have influenced the world so much that in the modern world, even foreign policies of nations are being shaped based on trade, business, research, etc. A significant contributor to this scenario is the automotive industry. The automotive industry is the collective term for all those companies and activities involved in the manufacture of motor vehicles, including most components, such as engines bodies, etc.<sup>2</sup> It is an undeniable fact that the automobile industry is a capital and knowledge-intensive industry, plays a significant role in the social development of a country. The industry contributes to the states in several ways. From corporate taxes coming directly from the sellers to tax on fuel levied from customers, the automobile industry is a significant contributor to every nation state's economy. It is not wrong to say that every drive is an economic transaction. The role of the automobile industry in the development of the modern economy and the prospects for its development is determined by the place of motor transport in the infrastructure of the national economy.<sup>3</sup>

The history of the automobile industry is brief when compared to other industries. Even though steam-propelled engines were introduced way back. The actual reason for the birth and growth of the global automobile industry can be credited to the invention of the 'gasoline engine' that happened between 1860-70.<sup>4</sup> France and Germany were the market leaders in the 19<sup>th</sup> century but by the beginning of the 20<sup>th</sup> century, they were joined by Great Britain, the USA, and Japan. However, in the early 20<sup>th</sup>-century commercial cars were still a very rare mode of transport. Cars remained in the precious collections of the rich and the powerful. Even though the market had many makers, they were competing against each other to serve a very small luxury market. This scenario was changed in the United States because of the revolution created by the Ford Company. The Ford company began manufacturing its revolutionary

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<sup>2</sup> automotive industry | History, Overview, Definition, Developments, & Facts, , ENCYCLOPEDIA BRITANNICA, <https://www.britannica.com/technology/automotive-industry> (last visited Oct 12, 2021).

<sup>3</sup> The role of the automobile industry in the economy of developed countries, , Volume 4 THE ARTICLE IS DEVOTED TO THE ANALYSIS OF THE ROLE OF THE AUTOMOBILE INDUSTRY IN THE ECONOMY OF DEVELOPED COUNTRIES. THE WORK REFLECTS THE EXTREMELY HIGH ROLE OF THE AUTOMOTIVE INDUSTRY IN GDP GROWTH AND EMPLOYMENT GENERATION, THE ABILITY OF THE AUTOMOTIVE INDUSTRY TO FORM A TAXABLE BASE AND REVENUES OF THE STATE BUDGET, AS WELL AS THE ROLE OF THE AUTOMOBILE INDUSTRY IN THE DEVELOPMENT OF AUXILIARY INDUSTRIES AND THE STIMULATION OF SCIENTIFIC AND TECHNOLOGICAL PROGRESS. (2018), <https://medcraveonline.com/IRATJ/IRATJ-04-00119.pdf> (last visited Oct 12, 2021).

<sup>4</sup> automotive industry | History, Overview, Definition, Developments, & Facts, *supra* note 1.

model T in 1908, and by 1920, because of 'assembly line' and 'mass production' technology Ford was successful in selling the automobile for as low as 450 dollars. This allowed a whole new social class to afford commercial vehicles and changed the face of the US economy. This idea of making cars for the mass populations made manufacturers in Europe come up with various designs and technical innovations targeting the great middle class.

Volkswagen industries Ltd, the biggest automobile company in the world as of 2021 owes its origin to this race between European powers to build the best 'peoples car'. Adolf Hitler proposed a project to build a 'low-cost people's car' for Germany that would bring Germany millions of new buyers. Ferdinand Porche's office was commissioned to work on the designs. Thus, Volkswagen was born.

The automobile industry is not free from shocks, be it economic, regulatory, or technical. Each shock should be thoroughly analysed and appropriate managerial action is to be taken. Sheer managerial efficiency and brilliant decision-making aided Volkswagen to become the market leader in the Industry. The company has employed various restructuring mechanisms like Mergers, acquisitions, takeovers, Joint Ventures, Partnerships etc, in different markets based on existing conditions. This paper is a study on the growth of Volkswagen and an analysis of the various strategic restructuring activities undertaken by the company. The study also tries to understand the effects of these schemes, based on their impact on the shareholder's wealth. The study is limited to the most important restructuring activities undertaken by Volkswagen.

The concept of Corporate Restructuring through Mergers and Acquisitions has originated in the United States of America. The concept has been formulated by the happening of Six major Merger Waves. Each wave saw the scope of these activities expanding, and by the third and fourth waves, it evolved to become a global phenomenon. Each wave is characterized by a certain style of Restructuring. Corporate Restructuring occurs as a reaction of companies towards shocks be it economic, regulatory or technological.

An established principle in business is that survival is ensured only by growth. In an extremely competitive industry like the automobile, this principle holds much importance. No manufacturer can afford to remain stagnated and away from innovations and still hope to survive. Mergers and Acquisitions are the main tools used by various company's to attain growth and hence survival. Even though in most situations the terms Merger and Acquisition are used interchangeably, in a legal sense they both have different meanings. In a merger, two

companies of similar size combine to form a new single entity. In the case of acquisitions, the larger company absorbs smaller companies. Generally, the smaller company is not wound up in the case of an acquisition.<sup>5</sup> When one person purchases controlling interest in another company, it is known as an acquisition or takeover.<sup>6</sup> Besides Mergers and Acquisitions, companies employ various methods like Partnerships, strategic alliances, joint-stock companies, etc to capitalize on synergy without restructuring.

Mergers and Acquisitions are highly advantageous for the company. But in some situations, it can be a costly affair too. Joint Ventures and strategic alliances are increasingly used by companies to achieve the gains of M&A without the requirement of doing M&A. If the goals of the relationship between the parties are unambiguous and the same can be easily outlined in an enforceable contract between the parties a basic contractual agreement may be chosen. When two or more companies pool in their resources and work towards a specific goal, it is known as a joint venture. A separate legal entity in the form of a special purpose vehicle is often created to facilitate a joint venture. The collaborative effort by two or more companies where each company maintains its independence is known as a strategic alliance.<sup>7</sup>

The scope of Corporate restructuring is immense. An unrestricted approach to Mergers and Acquisitions will result in companies with better resources thriving over their counterparts. To eliminate this scenario from happening and to maintain healthy competition in the market, antitrust regulations and takeover regulations are being introduced by governments all over the world. The Williams Act of 1968 is an important legislation in the field of M&A in the United States. It was introduced as a Regulatory Mechanism for Tender Offers that were previously unregulated.<sup>8</sup> In Britain takeover regulations was a form of self-regulation by parties. Through the city code of takeover and Mergers, a major principle is established which mandates that in M&A's all shareholders are to be treated equally and fairly<sup>9</sup>. In India, before the 1990s takeover was regulated by the companies act of 1956.

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<sup>5</sup> Mergers & Acquisitions (M&A), , CORPORATE FINANCE INSTITUTE, <https://corporatefinanceinstitute.com/resources/knowledge/deals/mergers-acquisitions-ma/> (last visited Oct 15, 2021).

<sup>6</sup> Mergers\_\_\_Acquisitions\_in\_India.pdf, , [https://www.nishithdesai.com/fileadmin/user\\_upload/pdfs/Research%20Papers/Mergers\\_\\_\\_Acquisitions\\_in\\_India.pdf](https://www.nishithdesai.com/fileadmin/user_upload/pdfs/Research%20Papers/Mergers___Acquisitions_in_India.pdf) (last visited Oct 16, 2021).

<sup>7</sup> Patrick A Gauhan, Mergers Acquisitions, and Corporate Restructuring, 542.

<sup>8</sup> Patrick A Gauhan Mergers, Acquisitions, and Corporate Restructuring, 73(200)

<sup>9</sup> Id 86

In 1997 the takeover code of 1997 was introduced. Subsequently, as a result of market changes, it was replaced by the Takeover Regulations of 2011.<sup>10</sup> The companies act of 2013 also regulates Mergers and acquisitions through sections 230-234.

Through these studies, I concluded that Mergers and Acquisitions happen for a variety of reasons. It is an important aspect of any industry. The ardent desire for growth is the main motivating factor behind every Merger and Acquisition. The macro and theoretical reasons like exploiting synergies, replacing an inefficient management with an efficient one, Personal prejudices of managers, etc can also motivate takeovers<sup>11</sup>. Generally, companies pursue Mergers and Acquisitions for fulfilling their desire to grow, diversify and broaden a product line, expand their presence to different markets, upgrade their existing technology, or acquire new technology etc. Leveraging joint synergies or just acquiring a competitor can also trigger Mergers and Acquisitions. Companies also rely on various methods other than M&A to capitalize on synergies by reducing the costs involved.

Existing works of literature on Volkswagen provide a comprehensive idea of the creation and growth of the company. Throughout the history of Volkswagen, it used restructuring as a tool for market expansion. Effective and efficient restructuring activities made Volkswagen a global brand. Volkswagen has also relied on partnerships and joint ventures to exploit synergies as per the conditions. A review of the various restructuring activities undertaken by Volkswagen benefits scholars by helping them create a framework for corporate expansion.

## **2. The Concept Of 'Strategic Reconstruction' And Volkswagen**

Volkswagen LTD has undertaken a series of restructuring activities in its history. The careful and planned restructuring activities are undertaken by Volkswagen made it the largest car manufacturer in the world as per the reports in 2021.<sup>12</sup> As per the reports, Volkswagen is the largest car manufacturer in the world in terms of revenue. The automobile industry has one of the most competitive and tough markets in the world. Market leaders often struggle to maintain

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<sup>10</sup> Id 95

<sup>11</sup> Id 213.

<sup>12</sup> Top 10 Biggest Car Manufacturers by Revenue (2021), , <http://www.threadinmotion.com/blog/top-10-biggest-car-manufacturers-by-revenue> (last visited Oct 24, 2021).

sales and to maintain a steady return. The abundance of funding available to the research and development wings of global automobile giants is resulting in the rapid up-gradation of existing technologies along with the inflow of new technologies. No company can survive in this industry by remaining stagnant. Market expansion and product expansion are imperative for surviving in this industry. In this context, the scope of Corporate Restructuring activities is immense in the automobile industry as Mergers, Acquisitions and takeovers can be effectively utilized by companies as a method for expansion.

Volkswagen is widely regarded as a company that has conducted several successful corporate restructuring activities. The planned and strategic portfolio restructuring undertaken by Volkswagen not only helped in surviving the extreme competition existing in the market but to emerge as a market leader and becoming one of the biggest car companies in the world. A careful analysis of the restructuring activities undertaken by Volkswagen makes it evident that restructuring should not be blind but strategic and that every strategy has its expiry date beyond which it becomes redundant.

The recent shift in the company's strategy to free itself from combustion engines and to focus on clean energy-driven automobiles is an example of changing strategies. The company has come a long way from the days of the legendary transporter vans and beetle cars. The friendly, negotiated and strategic restructuring activities undertaken by Volkswagen is a paradigm for effectively handling competition and market changes. The restructuring activities undertaken by Volkswagen made it a conglomerate having a presence in many industries with more than 12 independent brands under it. Analyzing the restructuring activities undertaken by Volkswagen provides an in-depth understanding of the automobile industry and the necessity of restructuring to survive in it. Some major corporate restructuring activities undertaken by Volkswagen are discussed in this paper.

## **2.1. ACQUISITION OF AUTO UNION (AUDI) BY VOLKSWAGEN**

After the second world war, the Volkswagen Facilities were shattered by rapid bombings from the allies. It was subsequently taken over by the British Military and production was resumed. The sales were very low at around 10% of its 1936 sales<sup>13</sup>. The company was offered to various British Car Manufacturers but failed to find a buyer. In 1948,

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<sup>13</sup> Volkswagen Group, , WIKIPEDIA (2021), [https://en.wikipedia.org/w/index.php?title=Volkswagen\\_Group&oldid=1049490951](https://en.wikipedia.org/w/index.php?title=Volkswagen_Group&oldid=1049490951) (last visited Oct 24, 2021).

Ford Motor Company (USA) turned down an offer to acquire Volkswagen. The company survived by manufacturing automobiles for the British Military and in 1948 the control over the company was handed over to the German state. The period between 1950-60 saw a rapid increase in the production of its Type-1 models that came with a series of features like air-cooled rear-engine rear-drive platform etc.<sup>14</sup>

#### 2.1.1. OBJECTIVE

The creation of a multi-branded major market player was not the idea of Volkswagen when the negotiations for the acquisition of Auto Union commenced in 1964. The production capacity of Volkswagen's Wolfsburg plant was running at its capacity and the company was extremely interested in the factory at Ingolstadt owned by the auto union. The facility had an annual capacity of around 100,000 vehicles. It also had a highly skilled workforce and dealers and service facilities including sales organizations. An added advantage was that this takeover would eliminate a direct competitor<sup>15</sup>. Also, the auto union was making a significant loss to its parent company Daimler Benz and Daimler Benz was facing stiffer competition from Opel and Ford. By selling its loss-making subsidiary to Volkswagen, DM obtained significant investments to its upper-Mid range segment. There was also a difference of opinion between the holding and subsidiary company regarding the future of two-stroke engines. On January 1 1965, Volkswagen acquired a 50.3% stake in Auto Union giving it controlling power over Auto Union and Auto Union by 1996, became a wholly-owned subsidiary of Volkswagen.

The renaissance of the brand happened in Frankfurt International motor show and it was in this auto show that AUDI introduced its first four-stroke model. The model was introduced under the 'AUDI' name. By 1970 the company had introduced a series of models and these models ensured that AUDI returned to profit-making after a series of turbulent years.. Volkswagen in 1969 merged with NSU Motorenwerke AG to form the Neckarsulm- based Audi NSU Auto Union AG. The engineering expertise and a range of small cars of the NSU group prompted Volkswagen for a merger.

#### 2.1.2 SYNERGY AND OTHER BENEFITS.

The acquisition of Auto-Union and merger with NSU was beneficial to all parties. It created a series of synergies that favored the performance of all the companies in the years to come.

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<sup>14</sup> *Id.*

<sup>15</sup> FROM THE BEETLE TO A GLOBAL PLAYER: VOLKSWAGEN CHRONICLE, (Manfred Grieger, Markus Lupa, & Volkswagenwerk eds., 2014).

- a. Volkswagen benefited from the synergy effects within the brand network which helped it to create a new Volkswagen generation using the Modular Kit Principle. The K 70 which was the first Volkswagen with a water-cooled engine was an NSU design.<sup>16</sup>
- b. The Beetle era was slowly fading and Volkswagen was facing loss in that segment. The loss incurred by Volkswagen in that area was curtailed to a great extent through the successful sales of its Audi models.<sup>17</sup>
- c. Volkswagen was able to make a transition to a modern portfolio using the designs of NSU and Audi.<sup>18</sup>
- d. The continuous expansion of sales of Audi in the USA also benefited Volkswagen.<sup>19</sup>

### **2.1.3. BENEFITS FOR AUDI**

AUDI-200 launched in 1979 paved the way for AUDI to the luxury sector. AUDI reached new heights in 1984 by winning the world rally championship for manufactures. This boosted the technological outlook of the company. AUDI took the first three places in the Monte-Carlo rally in 1984.<sup>20</sup> These victories further boosted the image of the brand and this was followed by an increase in the company's business throughout the 1980s. This was reflected by a high degree of capital investment in AUDI.<sup>21</sup> In 1985, investments reached a peak of almost a billion Deutschmarks.<sup>22</sup> The same year the company was renamed AUDI AG and its headquarters returned to Ingolstadt. The international growth of AUDI AG was provided a framework by the globalization of Volkswagen group in the 1990s. This act of acquisition made Volkswagen richer, better performing, and provided with immense scope of growth.

### **2.1.4. ANALYSIS OF THIS RESTRUCTURING.**

AUDI and Volkswagen were serving similar target markets. This Merger is Horizontal in nature as it is between two companies that are in direct competition with each other. This has resulted in the consolidation of two firms that were direct rivals. Volkswagen was able to eliminate a direct competitor. This restructuring also contributed to economies of scale for both

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<sup>16</sup> Id 262

<sup>17</sup> Id

<sup>18</sup> Id

<sup>19</sup> Id

<sup>20</sup> Shacki, *Final results Rallye Automobile de Monte-Carlo 1984*, EWRC-RESULTS.COM , <https://www.ewrc-results.com/final/1589-rallye-automobile-de-monte-carlo-1984/> (last visited Oct 24, 2021).

<sup>21</sup> Supra note 15 p 262(2002)

<sup>22</sup> Id 262

companies as the plants of AUDI were underperforming and the inclusion of Volkswagen's products will enable the plants to function in full swing which is beyond any doubt beneficial to both the companies.

## **2.2. ACQUISITION OF BUGATTI BY VOLKSWAGEN.**

Volkswagen acquired Bugatti in 1999. Bugatti was a massively respected brand in Europe. But by the mid-1990s, the brand was constrained to the history books because of various reasons. The limited number of existing Bugatti's caught the eye of motor car enthusiasts for their superior or groundbreaking designs. In 1998, Volkswagen stepped in to revive the legacy of the legendary brand. Bugatti had established itself as a respected manufacturer of luxurious and sports automobiles. Italian businessman Romano Artioli briefly had an unsuccessful attempt to revive Bugatti in the 1990s. But this came to an end after sales of just over 120 models and the closure of the plant.<sup>23</sup> Volkswagen on July 10, 1998, acquired the holding company and with it, Volkswagen also acquired the rights to go on with the legendary brand. Volkswagen knew that apart from capital, it would take a considerable amount of time and technical expertise to revive the brand Bugatti.

### **2.2.1. OBJECTIVES**

- The acquisition of Bugatti was a part of Volkswagen's plan to establish a luxury segment for itself and also to generate a steady demand potential.
- Through revitalizing this traditional luxury brand Volkswagen intended to reinforce its technological expertise and innovative strength itself.
- The company (Volkswagen) aimed to reflect progress it earns from acquisitions like these to its mid-class variants so that it can easily raise its levels from that of its competitors.
- Another objective was to enhance the public perception of Volkswagen. The company was initially created to manufacture 'the people's car'. Volkswagen, through this acquisition, aimed to see itself as a major player in the industry.
- The Volkswagen group also aimed to have a strong presence in the luxury car segment by integrating Lamborghini, Bentley, and Bugatti.

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<sup>23</sup> Id 274

### **2.2.2. IMPACT OF THE ACQUISITION.**

Through this acquisition, Volkswagen was able to expand and establish its footprint in the sports- luxury segment. In 1999. The models introduced by Bugatti like Veyron, Chiron, etc quickly stole the spotlight through their extraordinary engineering, minimalist design, and expert-level craftsmanship. Bugatti Veyron is also credited to be the fastest road-legal sports car in the world with a top speed of over 400 km/hr. Bugatti is also in great demand in the USA. The renaissance of Bugatti under the leadership of Volkswagen can be regarded as successful with considerable advantages to both sides.

### **2.2.3. VOLKSWAGEN SHEDS BUGATT**

On the 7<sup>th</sup> of July, 2021 Volkswagen announced that it was giving up the controlling stake in Bugatti and that Bugatti will become part of a joint venture between Volkswagen's Porsche unit and Rimac, a young Croatian company<sup>24</sup>. Volkswagen was of the view that it seemed incongruous for a company better known for its economic cars. Rimac owns 55% of the joint venture known as Bugatti-Rimac and Porsche owns 45% of the stake. The Volkswagen management stated that this deal removes one of the major distractions of Volkswagen and that Volkswagen will be able to focus on its important tasks that include manufacturing electric cars etc now<sup>25</sup>. Volkswagen will still have some control over the company as its subsidiary Porsche owns 45% of the stake.

### **2.2.4. ANALYSIS OF THE RESTRUCTURING.**

Bugatti was acquired by Volkswagen as a part of its global expansion program. Volkswagen aimed to benefit from the Synergy effects as it had already acquired Lamborghini and Rolls-Royce. The takeover had the result of elevating Volkswagen to the status of a key player in the luxury car segment. The current global push towards greener earth negatively affected Bugatti whose powerful engines are not considered eco-friendly. Volkswagen's push to completely withdraw from combustion engines by 2035 resulted in Volkswagen selling its controlling stake in Bugatti to Rimac, a Croatian electric car company.

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<sup>24</sup> Volkswagen Sheds Bugatti, Maker Of Over-the-top Sports Cars, , MONEYCONTROL, <https://www.moneycontrol.com/news/business/volkswagen-sheds-bugatti-maker-of-over-the-top-sports-cars-7136541.html> (last visited Nov 2, 2021).

<sup>25</sup> *Id.*

### **2.3. ACQUISITION OF LAMBORGHINI BY VOLKSWAGEN**

Lamborghini was founded in 1963. It is headquartered at Sant Agata, Bolognese in Northern Italy. Lamborghini is known for its state-of-the-art super sports cars. The company delivers unique new hybrid technologies, new materials technologies, and unsurpassed Lamborghini performance.<sup>26</sup> Unlike Bugatti, Lamborghini was very much alive and roaring in the 1990s. The Volkswagen Group was aiming to enhance its brand image by developing a luxury segment. The brand Lamborghini is known for its unique combination of speed, style, and perfection. These attributes attracted Volkswagen<sup>27</sup>. The inability of Lamborghini's Indonesian holding company to deliver the required capital to Lamborghini was causing a financial problem for Lamborghini. Following a series of lengthy negotiations, Automobili Lamborghini S.P.A was acquired by Volkswagen on July 10, 1998.<sup>28</sup> Lamborghini became Volkswagen group's third luxury brand along with Bentley and Bugatti. It is placed under the control of the AUDI division.

#### **2.3.1. OBJECTIVES.**

- To create synergy effects as a result of similarity of brand profiles and production technology under AUDI and Lamborghini.
- Audi was able to further strengthen its position in the premium segment, through Lamborghini, it can call upon the resources of a highly reputed and respected company like Lamborghini and also its technological expertise.<sup>29</sup>
- To fully unleash the potential of Lamborghini by providing the required capital to focus on the growth and development of Lamborghini.
- To provide Lamborghini with a heightened flagship to improve its profile.<sup>30</sup>

#### **2.3.2. IMPACT OF THE ACQUISITION.**

The leadership of AUDI has transformed the technology-driven super sports car manufacturer, i.e. Lamborghini into a customer-oriented company<sup>31</sup>. The company is on a good path towards sustained growth and commercial success for probably the first time in its history.

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<sup>26</sup> Lamborghini | Brands & Models of the Volkswagen Group, , <https://www.volkswagenag.com/en/brands-and-models/lamborghini.html> (last visited Nov 2, 2021).

<sup>27</sup> FROM THE BEETLE TO A GLOBAL PLAYER, *supra* note 14.

<sup>28</sup> Id

<sup>29</sup> FROM THE BEETLE TO A GLOBAL PLAYER, *supra* note 14.

<sup>30</sup> Id

The company was successful in rectifying its market collapse in the USA with aggressive expansion in Eastern Europe, Asia, and the Middle East.<sup>32</sup> Lamborghini finds the top spot in Volkswagen's product portfolio. The qualities of Lamborghini like its supreme style and uncompromising performance made it the leader in the Super Sports Car segment. The main objectives of this acquisition of Lamborghini by Volkswagen were to rectify the capital constraints of Lamborghini and also to minimize its other areas of weaknesses.

An important challenge faced by Lamborghini is the extremely high price tags associated with its models. The build quality and performance of the machines do justify the price tag but if this problem can be curtailed, the market can be expanded. Lamborghini can also work on introducing models that fit the above-mentioned criteria. Also in most countries, Lamborghini has to be imported. This further adds to the price of the models. These weaknesses can be addressed by Volkswagen which is arguably the best brand in the segment of popular affordable cars. The high quality of Lamborghini comes with a price, and this issue is aggravated in times of economic crisis. In the past, Lamborghini has faced similar issues and its sales were down by almost 50%.<sup>33</sup> Analysts believe that Volkswagen is doing a better job addressing this issue than the previous owners of Lamborghini.

The majestic performance of Lamborghini also comes with a severe impact on the environment. The high fuel consumption associated with Lamborghini is an issue that needs attention from the research and development wing. The potential customers of Lamborghini are affluent people who are generally within media coverage. At a time when countries around the globe desperately fight against climate change, high fuel consumption and resultant pollution are a source of concern. Brands like Tesla are flourishing because of their eco-friendly tag and also at the costs of brands like Lamborghini. Volkswagen and Lamborghini are working on an electric hybrid engine for Lamborghini. But it is still in the concept stage. These hybrid models can prevent the outflow of eco-friendly customers.<sup>34</sup>

Lamborghini is missing a whole bunch of potential customers because of its inability to provide proper after-sales services to its customers. In some situations, customers are forced to

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<sup>31</sup> Id 287

<sup>32</sup> Id

<sup>33</sup> SWOT analysis of Lamborghini, , MARKETING91 (2017), <https://www.marketing91.com/swot-analysis-lamborghini/> (last visited Nov 2, 2021).

<sup>34</sup> *Id.*

ship the car to another country for maintenance.<sup>35</sup> Lamborghini can work with Volkswagen to set up service centers in those countries where Volkswagen has a strong presence. This could expand the market of Lamborghini.

#### **2.4. ACQUISITION OF BENTLEY BY VOLKSWAGEN**

The acquisition of Bentley was part of the Volkswagen group's strategy of strategic global expansion. Through the acquisition of Bentley, Volkswagen aimed to create a luxury segment and to establish a small but steady demand potential<sup>36</sup>. Volkswagen group analyzed that Bentley, along with Rolls Royce, popularly known as the 'Royal Car Maker' was ideal for the development of its luxury group umbrella. Bentley was also the driving force behind the luxurious Rolls Royce brand. Volkswagen was interested in both the sporty and luxurious models of Bentley and the 'Rolls Royce' brand. Rolls Royce represented the very best in British Motoring and had set the world standard in catering to the ultra-rich.<sup>37</sup> On July 3, 1998, Volkswagen group acquired the Bentley brand, its factory in Crewe, and also the right to use the name 'Rolls Royce' until 2002.<sup>38</sup> Through this acquisition, Volkswagen group successfully entered the luxury car segment. Volkswagen was also able to successfully outbid BMW for acquiring Bentley<sup>39</sup>. This deal was a lot complicated as even after spending around 430 million pounds, Volkswagen still lacked complete ownership of Bentley. They had the production and administrative facilities, the model nameplates, the vehicle designs, and the Spirit of Rolls-Royce grille shape trademarks — but they didn't have the Rolls-Royce name or logo, which remained in the ownership of Rolls-Royce Holdings.<sup>40</sup> On 1<sup>st</sup> Jan 2002, Volkswagen became the sole provider to the Bentley Marque and BMW was presented with the Rolls Royce. This deal backfired as Volkswagen failed to achieve its objectives despite spending close to 800 million dollars.<sup>41</sup>

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<sup>35</sup> *Id.*

<sup>36</sup> FROM THE BEETLE TO A GLOBAL PLAYER, *supra* note 14.

<sup>37</sup> Terence Lau, *Caveat Emptor: Lessons from Volkswagen's Lemon Purchase*, 12 CURRENTS INTERNATIONAL TRADE LAW JOURNAL 3–9 (2003).

<sup>38</sup> *Id.* 266

<sup>39</sup> Here's Everything Volkswagen Owns, , CEO TODAY, <https://www.ceotodaymagazine.com/2018/08/heres-everything-volkswagen-owns/> (last visited Nov 3, 2021).

<sup>40</sup> *Id.*

<sup>41</sup> Lau, *supra* note 36.

### **2.4.1. OBJECTIVES**

- To expand internationally by leveraging the market and trademarks of both Bentley and Rolls Royce.
- To expand Volkswagen's product portfolio.
- To mark the entry of Volkswagen into the luxury segment.
- To resolve the issue of capital deficiency in Rolls Royce Ltd, and to provide sufficient resources to invest in the development of new products.

### **2.4.2. IMPACT OF THE ACQUISITION.**

This restructuring activity turned out to be a disaster for Volkswagen. Inefficient due diligence of Volkswagen proved costly as it led to a loss of over 800 million dollars.<sup>42</sup> Volkswagen was interested more in the trademarks of Rolls Royce and Bentley rather than the products they offered. Volkswagen aimed to invest massively in research and to develop new products which according to Volkswagen suited the needs and requirements of the 21<sup>st</sup> century. A trademark license agreement of 1973 between Rolls Royce PLC and Rolls Royce Motors Ltd, stated that Rolls Royce PLC is the owner of the trademark and that Rolls Royce motors is just licensed to use it<sup>43</sup>. Furthermore, there existed an engine supply agreement between Rolls Royce PLC and BMW, an important clause in the said agreement gave the right to BMW to discontinue the supply of engines if Rolls Royce motors Ltd, was to be sold to another car manufacturing company. Volkswagen was denied the Rolls Royce trademark because of the 1973 trademark licensing agreement and BMW acquired the Rolls Royce trademark for around 65 million dollars.<sup>44</sup>

### **2.4.3. ANALYSIS OF THE RESTRUCTURING.**

This acquisition was also horizontal in nature. Volkswagen aimed to expand its market internationally through these acquisitions. Volkswagen's objective was to expand its market by acquiring Bentley. Bentley was a brand popularly known as 'The Royal Car' in Europe as it owned 'Rolls Royce' and also because it was the 'go to' brand for much of the royalty. Volkswagen aimed to benefit from the synergy created through the acquisitions of Bugatti and

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<sup>42</sup> *Id.*

<sup>43</sup> Caveat Emptor\_ Lessons from Volkswagens Lemon Purchase.pdf - ashokneelakandhan@gmail.com - Gmail, , <https://mail.google.com/mail/u/0/#inbox/KtbxLvHgQGbTGfPnXWvLPBVKLlnjpvKkkL?projector=1&messagePartId=0.1> (last visited Nov 7, 2021).

<sup>44</sup> Lau, *supra* note 36.

Lamborghini. The poor due diligence mechanism undertaken by Volkswagen made this restructuring an unsuccessful one. Volkswagen was forced to sign a memorandum of understanding with its rival BMW to use the trademark of Rolls Royce for just 3 years.<sup>45</sup> Volkswagen aimed to benefit from the 'Rolls Royce trademark'. It spent millions of dollars for that but ended up with Bentley which it could have acquired at a much lower rate. This created widespread criticism towards the Volkswagen management and led to poor financial performance.<sup>46</sup> This restructuring activity also confirms the hypothesis that 'corporate restructuring activities that decrease shareholder's wealth are not good. BMW successfully used 'Brand Pill Takeover Defence' here and made it impossible for Volkswagen to use the 'Rolls Royce' brand.

## **2.5. THE JOINT VENTURE AND SUBSEQUENT ACQUISITION OF SKODA BY VOLKSWAGEN.**

The global automotive industry is one of the most fiercely competitive industries. The cut-throat environment means that no company can survive in the market without expanding its boundaries and target markets. Skoda till the 1990s was under the ownership and control of the Czech Government. By the 1990s it became impossible for Skoda to meet its market demand. The decision to privatize Skoda was announced in 1990. Volkswagen in the 90s suffered massive setbacks in its USA market because of the rising influence of Japanese players in the US market and the issue relating to the electrical parts of Golf, which was one of its most popular models, tarnished its reputation. Volkswagen aimed to expand its market to central and east European countries (CEE)<sup>47</sup>. Volkswagen had already set the plan into motion through the acquisition of CEAT. The joint venture with Skoda Auto was aimed to consolidate its position in the CEE market and to build inroads into the markets in ASIA where European and other western automobile manufacturers had a weak footprint. The Czech government approved Volkswagen's proposal to purchase a stake in Skoda on December 9, 1990. On 30<sup>th</sup> may, 2000 Volkswagen purchases the remaining shares of Skoda from the Czech Government, making it a wholly-owned subsidiary of Volkswagen. Even though Volkswagen faced stiff competition from Dassault, the strong anti-communist sentiments of the Czechs benefited Volkswagen<sup>48</sup>.

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<sup>45</sup> *Id.*

<sup>46</sup> *Id.*

<sup>47</sup> Two Companies Write ONE History, , ŠKODA STORYBOARD (2016), <https://www.skoda-storyboard.com/en/skoda-world/two-companies-write-one-history/> (last visited Nov 12, 2021).

<sup>48</sup> Navlek Vojtech, Acquisition of Skoda Auto Company by Volkswagen Group 23(2011)

### **2.5.1. OBJECTIVES OF THE JOINT VENTURE.**

- To penetrate CEE markets through the joint venture with Skoda.
- To have a strong presence in every segment of the car market.
- To attract mature clients using Skoda's designs and Volkswagen's economic competence and sophistication.
- To venture into the markets of Asia where huge growth potential awaits along with limited competition.
- Skoda was already being sold in markets of western Europe and Volkswagen analyzed that with the required improvements it can have emerged as a key player in these markets.

### **2.5.2. IMPACT OF THE JOINT VENTURE.**

The joint venture with Volkswagen saw the inflow of cutting technologies and resources to a struggling Skoda Auto. Skoda auto was also successful in benefiting from the synergy effects and other benefits from the Volkswagen group. By the late 1990s, Skoda Auto was successful in establishing itself as a trusted and value for money brand that manufactured high-quality sturdy cars in Europe<sup>49</sup>. Volkswagen's multi-brand strategy to have a strong presence in the entry-level and economical car market was achieved through the combined forces of Skoda and CEAT. The expansion to Asian markets by Volkswagen also helped Skoda Auto. Skoda subsequently became a trusted brand in India, Thailand, Indonesia, etc. Skoda has become an indispensable part of the Volkswagen group as a result of its strong inroads into the emerging markets of China, India, and Russia. The synergy effects created by different plants belonging to the Volkswagen group are taking it to newer heights.

Volkswagen used this joint venture and subsequent acquisition to further consolidate its position in every segment in the car market. Volkswagen currently holds a strong presence in the luxury segment through AUDI, Lamborghini, and Bentley. Volkswagen itself is a strong player in the mid-size segment and through SEAT and SKODA, it was successful in consolidating its position in the entry-level and economical segment.

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<sup>49</sup> Volkswagen's Acquisition of Skoda Auto|Business Strategy|Case Study|Case Studies, , <https://www.icmrindia.org/casestudies/catalogue/Business%20Strategy/Volkswagen%20Acquisition%20of%20Skoda%20Auto-Business%20Strategy%20Case%20Study.htm> (last visited Nov 12, 2021).

### **2.5.3. ANALYSIS OF THE RESTRUCTURING.**

A Joint Venture is popularly considered as a pre-step to a merger. The setback faced by Volkswagen in the USA is what triggered this Joint Venture and subsequent acquisition of Skoda by Volkswagen. The acquisition of SKODA was also a part of the global expansion program of Volkswagen. The privatization of SKODA and its subsequent takeover by Volkswagen is regarded as one of the greatest success stories in the area of privatization. Through the acquisition, Volkswagen was able to have an addition to its brand image, boost its sales, and to further consolidate its position in the automobile market. The acquisition gave SKODA a 'new life' as the company was struggling under the management of the Czech Government and was on the verge of shutting down. Volkswagen's investments in SKODA resulted in sales of SKODA cars having a positive trajectory and it benefited Volkswagen by gaining better market share. Volkswagen was successful in giving SKODA a much-required facelift. A common pool of resources created from various brands belonging to Volkswagen has played a great role in the development of Skoda. The investments made by Volkswagen in Skoda proved fruitful as Volkswagen was able to realize the same as it was able to save considerable resources in the manufacturing of its AUDI models namely AUDI A3 and A8<sup>50</sup>. Skoda is widely regarded as an emerging high-quality brand that provides excellent quality cars at affordable prices<sup>51</sup>. The public perception of Skoda has come a long way from being a brand whose products are of inferior quality and lacks value for money. Skoda has emerged to become one of the favorite brands of Europe.

### **2.6. ACQUISITION OF SCANIA BY VOLKSWAGEN.**

The acquisition of SCANIA was part of its strategic restructuring plan formulated by Volkswagen. Volkswagen being a car manufacturer, expanded its business to heavy vehicles through the acquisition of SCANIA. SCANIA is a Swedish company that is one of the greatest brands in the world in the area of heavy vehicles. The trucks manufactured by SCANIA are popular throughout the world. The trucks are known for their superior performance, quality of their materials, and low maintenance requirements compared to their competitors. The brand SCANIA was one of the most profitable in the industry at that time. The engines manufactured

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<sup>50</sup> Pradeep K. Chhibber & Sumit K. Majumdar, *Property Rights and the Control of Strategy: Foreign Ownership Rules and Domestic Firm Globalization in Indian Industry Special Issue on Law, Technology, and Development*, 27 LAW & POL'Y 52-80 (2005).

<sup>51</sup> *Id.*

by SCANIA were famous for being economical, innovative, and least emitting.<sup>52</sup> In 2000, Volkswagen acquired around 18% of shares and 34% voting rights in SCANIA and by 2007, Volkswagen increased its voting rights to 37.4% becoming the second-largest shareholder in SCANIA. Through subsequent activities, Volkswagen by 2009, increased its voting rights to 69%<sup>53</sup>. SCANIA became the ninth independently operating brand under Volkswagen.

### **2.6.1. OBJECTIVES OF THE ACQUISITION.**

- To become the market leader in the heavy vehicles market by merging SCANIA with MAN. Volkswagen is the largest shareholder of MAN. The combined company is proposed to become the largest truck maker in Europe overtaking Daimler and Volvo
- Market Expansion as the acquisition of SCANIA will make Volkswagen a key player in the heavy vehicles market.
- To benefit from the synergy potential between Volkswagen and SCANIA. The companies can work together to reach greater heights in areas of electronics, material purchasing, research, etc.

### **2.6.2. IMPACT OF THE ACQUISITION.**

SCANIA is regarded as a powerful brand elite in nature and based on its performance and demand for its products, it can be said that the company is having a bright future ahead. The acquisition of SCANIA by Volkswagen marks the entry of Volkswagen into the heavy vehicles industry. Volkswagen already controlled more than 30% shares of MAN, another company in the heavy vehicles industry. The acquisition of SCANIA by Volkswagen was followed by a merger between the three companies, i.e. Volkswagen, SCANIA, and MAN. The newly formed company becomes the market leader in Europe. The news regarding the merger had a positive impact in MAN shares. The acquisition made Volkswagen a key player in the global truck business that was booming in Asia and South America. The acquisition is another milestone in the journey of expansion undertaken by Volkswagen. The acquisition of SCANIA by Volkswagen increased the share prices of both Volkswagen and SCANIA. By 2011, Volkswagen completed its procedure of acquiring a majority shareholding in MAN SE and Volkswagen controlled 55.9% of voting rights in MAN and as a result, MAN's ownership

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<sup>52</sup> FROM THE BEETLE TO A GLOBAL PLAYER, *supra* note 14.

<sup>53</sup> *Id.*

in SCANIA was included in Volkswagen's ownership in SCANIA which meant that Volkswagen controlled about 89% of voting rights and 62% of share capital in SCANIA.<sup>54</sup>

### **2.6.3. ANALYSIS OF THE ACQUISITION.**

The acquisition of SCANIA by the Volkswagen group is horizontal in nature. This can be considered as a horizontal acquisition as the Volkswagen group already had a presence in the heavy vehicles market through its controlling shareholding in the MAN group. Volkswagen had a clear strategy in acquiring SCANIA, that is to become the market leader in the heavy vehicles market. The acquisition was completed by fully abiding by the European Takeover Directives 2004/25/EC. The European Union competition commission did not object to the takeover of SCANIA by Volkswagen.<sup>55</sup> The acquisition caused a jump in the shares of Volkswagen and MAN<sup>56</sup>. This acquisition is beneficial to the stakeholders. This restructuring activity confirms the basic principle that 'restructuring activities that add to the shareholder's value are good.' It can be rightly said that with the acquisition of SCANIA, the Volkswagen Group has redesigned its approach towards the heavy vehicles market. The acquisition is extremely relevant as it shows that expansion is imperative to survive in an extremely competitive industry like that of the automobile. Volkswagen was successful in forming a conglomerate through this acquisition and the resultant merger. Being a conglomerate has its advantages as it can effectively handle risks, shocks, and setbacks happening in any particular industry. Being a strong player in both the car industry and heavy vehicles market, Volkswagen is in a better position to handle market uncertainties.

### **2.7. REPEAL OF VOLKSWAGEN ACT AND HOSTILE TAKEOVER ATTEMPT BY PORSCHE.**

The Porsche family had 5% shareholding in Volkswagen and The German State on the other hand, had a 20% share in Volkswagen. The Volkswagen law provided power to the state to block any change in ownership or control over Volkswagen. The Volkswagen law was a contentious topic and was criticized by many free-market advocates at that time. It was termed

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<sup>54</sup> Financial history, , SCANIA GROUP , <https://www.scania.com/group/en/home/investors/company-overview/financial-history.html> (last visited Nov 24, 2021).

<sup>55</sup> Nabarro LLP-Cyrus Mehta & Rachel Bickler, *Commission does not object Volkswagen merger with Scania*, LEXOLOGY (2008), <https://www.lexology.com/library/detail.aspx?g=0d5e9c0a-9c57-4c2b-aa73-9a885f7e4b6a> (last visited Nov 24, 2021).

<sup>56</sup> Deutsche Welle (www.dw.com), *Volkswagen Acquires Majority Stake in Scania | DW | 03.03.2008*, DW.COM , <https://www.dw.com/en/volkswagen-acquires-majority-stake-in-scania/a-3163183> (last visited Nov 24, 2021).

an ‘illegal protection device’ and was targeted by the European Court of Justice during the early 2000s.<sup>57</sup> To secure its interest in Volkswagen, Porsche increased its stake in Volkswagen to 20% at the cost of 3 billion euros so that the combined stake of Porsche, the German State and the protection provided by the Volkswagen act protects Volkswagen from outsiders and Porsche increased its stake to 25% by July 2005.<sup>58</sup> Porsche claimed that it did not intend to take over Volkswagen. Porsche wanted to protect Volkswagen from corporate raiders.

The Volkswagen act is a set of German regulations that were enacted in 1960 and the legislation regulated the privatization of Volkswagen GmbH into the Volkswagen group<sup>59</sup>. The legislation intended to ensure government control over a privatized Volkswagen. The act stipulated that votes in major shareholders meeting resolutions required a 4/5<sup>th</sup> (80%) agreement.<sup>60</sup> It was alleged that this part of the Volkswagen act violated the ‘free movement of capital principle’ of European union corporate law. The Government of the German state had 20.2% voting power which enabled the Government to veto major decisions and to prevent takeovers by other shareholders. In October 2007, the European court of justice held that the Volkswagen act was illegal owing to its protectionist nature, and subsequent attempts by the German State to rewrite the law failed.<sup>61</sup>

The repealing of the Volkswagen act made Porsche the controlling stakeholder in Volkswagen. In 2008, Porsche through a highly leveraged and risky move took over 50% shares in Volkswagen. The financial crisis of 2007 massively affected the takeover of Volkswagen by Porsche. Porsche witnessed a sudden rise in lawsuits against it as many speculators and hedge funds encountered huge losses as a result of this transaction. The banks refused to fund the takeover and started asking for repayment of loans. Porsche, once profitable and independent landed in crisis. A deal was proposed with Qatar, as the latter agreed to invest in the takeover. This attempt was hijacked by Volkswagen, with the help of the German State. Porsche ended up selling its vehicle manufacturing group to Volkswagen group in August 2009. By 2012, the restructuring was completed with Porsche becoming the tenth brand under Volkswagen. Volkswagen acquired the remaining 50.1 % share in Porsche and along with

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<sup>57</sup> Sophie Nachemson-Ekwall, *The cross-border hostile bid fight between Scania in Sweden and the two German companies MAN and Volkswagen: institutional change and the mandatory bid rule*, 21 JOURNAL OF MANAGEMENT & GOVERNANCE (2017).

<sup>58</sup> *Id.*

<sup>59</sup> Volkswagen Act, *supra* note 56.

<sup>60</sup> *Id.*

<sup>61</sup> Nachemson-Ekwall, *supra* note 57.

49.9% shares already possessed by Volkswagen, Porsche has become a wholly-owned subsidiary under Volkswagen.

The hostile takeover attempt on Volkswagen by Porsche was successfully defended by Volkswagen. Volkswagen used the takeover defense of 'Packman Defence' to overcome the threat. Pacman defense is a defensive tactic that is often employed by the target company during a hostile takeover attempt by an outsider and this is done by the target company trying to acquire the acquirer, for warding off potential acquirers<sup>62</sup>. The defense got its name through the Pacman video game. Porsche attempted a takeover of Volkswagen, but Volkswagen, with the help of the German state and investments from Qatar was able to acquire Porsche in return. Two major factors happened in favor of Volkswagen that made it successful in its endeavor. The interference of the German State and the great economic depression of 2007-09. The interference of the German State helped Volkswagen to raise the required investment to implement this takeover defense and the great depression of 2007 made it impossible for Porsche to finance its takeover attempt leading to widespread criticism by the shareholders of Porsche.

#### **2.7.1. VOLKSWAGEN, SKODA, AND VOLKSWAGEN GROUP SALES MERGER IN THE INDIAN MARKET.**

In the Indian market, Volkswagen Ltd, which operated through three subsidiaries i.e. Volkswagen India, Volkswagen group sales, and Skoda Auto India merged all three entities and a new company formed was named 'Skoda Auto Volkswagen India'<sup>63</sup>. The reason behind the merger is to respond adequately to its slowing market demand and to further consolidate its position in the Indian market. The management of both Volkswagen and Skoda, claims that the merger is an important milestone for the Indian operations of both the entities as it enables them to combine the technical and managerial expertise of all the three companies which will enable Volkswagen to reach its full potential in India. The shared vision and strategy are beneficial to all the entities concerned in the merger. This merger means that all brands under the Volkswagen group, i.e. Skoda, Porche, Audi, Volkswagen. Lamborghini etc will be managed by the newly formed entity.

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<sup>62</sup> Pac-Man Defense, , INVESTOPEDIA , <https://www.investopedia.com/terms/p/pac-man-defense.asp> (last visited Nov 27, 2021).

<sup>63</sup> Volkswagen, Skoda Announce Merger In India; Here Is What It Means For The Vehicle Owners, , INDIATIMES (2019), <https://www.indiatimes.com/auto/current/volkswagen-skoda-merger-in-india-377438.html> (last visited Nov 16, 2021).

### 2.7.2. **OBJECTIVES BEHIND THE MERGER.**

Volkswagen Group announced the merger in September 2019.<sup>64</sup> This merger is a reaction to the tough competition in the Indian Automobile market due to the emergence of TATA as the new favorite in the market. The period also saw the introduction of new and exciting models by existing players like Maruthi Suzuki, Hyundai, etc in the Indian market. This merger is to realize the following objectives.

### 2.7.3. **RESPONSE TO A CHANGED MARKET.**

The period between 2017-18 saw Volkswagen's market share getting low to as much as 3%. The merger of all its subsidiaries working independently in India will consolidate Volkswagen's market share. This happened as a result of increased competition from its competitors. The consolidated market share of the newly formed entity benefits all parties concerned.

### 2.7.4. **SYNERGIES.**

Both Skoda and Volkswagen are considered as belonging to a different class that is between economical/ entry-level vehicles and luxury vehicles. The technical expertise of both Skoda and Volkswagen is widely appreciated in the Indian market. The synergies arising out of the merger are beneficial to all the parties concerned. Inculcating some premium features of Volkswagen or any of its other brands into SKODA will provide SKODA a significant advantage over its competitors. This can help in gaining the much-required market share. Volkswagen, which placed itself short of being a premium brand can include in its products, those features of SKODA that have the potential to make Volkswagen appealing to those among the target population seeking a semi-premium car that is economical. Since Indian customers view SKODA and Volkswagen cars as belonging to the same class, a merger can reduce the operational and administrative costs concerned.

### 2.7.5. **STRONG BRAND PORTFOLIO.**

The merged entity emerged with a very strong brand portfolio. Skoda Volkswagen India Ltd aims to serve its various brands like Skoda, Volkswagen, Lamborghini, Bugatti, etc, across various markets and also aims to expand its product portfolio to include more products.

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<sup>64</sup> www.ETAuto.com, *Volkswagen announces merger; new entity will be called Skoda Auto Volkswagen India - ET Auto*, ETAUTO.COM, <https://auto.economicstimes.indiatimes.com/news/passenger-vehicle/cars/vw-group-confirms-merger-of-entities-new-entity-is-called-skoda-auto-volkswagen-india/71022990> (last visited Nov 16, 2021).

Through this merger, Volkswagen aims to create a uniform vision and strategy for all its brands in India.

#### **2.7.6. IMPACT OF THE MERGER.**

Volkswagen failed to penetrate deeply into the Indian market due to a variety of reasons like poor after-sales services, high cost of spare parts, presence of heavyweights in its target market, etc, were some of them. Skoda has a good reputation in the highly competitive Indian Automobile market and by making Skoda the head of the newly formed entity, Volkswagen aims to capitalize Skoda's superior brand image in India. The Merger strengthens Volkswagen's India 2.0 project whereby Volkswagen will be able to adequately address its dwindling sales, ongoing losses, and poor performance in India. Various analysts have claimed that this reconstruction is key to the project so that the brand can achieve its full potential.<sup>65</sup> Since all brands are focusing on Indian Customers, this merger will help the newly formed entity to minimize the wastage of time in decision making at the senior level. Through this merger, Volkswagen aims to increase its market share to 3% by 2022 and 5% by 2025.

#### **2.7.7. ANALYSIS OF THE MERGER.**

Skoda is a wholly-owned subsidiary of Volkswagen group. Volkswagen Group sales Ltd is also the same. This is a merger between a holding company (Volkswagen) and two of its wholly-owned subsidiaries. This action comes under the purview of section 232 of the Indian Companies Act, 2013, as what happened here is a reconstruction and the companies act of 2013, explains reconstruction as 'when that company's business and undertaking are transferred to another company formed for that purpose so that as regards to the new company, old business is carried out and same persons are interested in it as in the case of the old company.'<sup>66</sup> Here the new company formed is Skoda Volkswagen India Private Ltd. The businesses of Skoda India, Volkswagen India, and Volkswagen Group sales Ltd are transferred to the newly formed company. Hence this merger is like reconstruction and comes well within the purview of section 232 of the companies Act, 2013. The merger has not attracted any issues from the competition commission of India as neither Volkswagen nor Skoda is a major player in the Indian market.

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<sup>65</sup> Volkswagen India new name is SAVWIPL - Skoda Auto VW India Pvt. Ltd., , RUSHLANE (2019), <https://www.rushlane.com/volkswagen-india-new-name-savwipl-12323313.html> (last visited Nov 16, 2021).

<sup>66</sup> J.A Hornby. An introduction to company law (1957) 174

### **3. Conclusion.**

Volkswagen is a company that has successfully employed various restructuring activities to achieve its objectives. The restructuring activities are not limited to acquisitions and takeovers. The company has also employed other restructuring activities like joint ventures etc, to achieve its goals as per the market conditions. The joint venture formed with Ford, as a result of the peculiar conditions prevailing in the South American market is an example of this. Analyzing the restructuring activities undertaken by Volkswagen brings us to the conclusion that survival in a competitive market requires strategies and strategies that requires constant updating. Volkswagen focused on acquiring struggling brands and then focusing on their development by pooling in resources. The brands acquired by Volkswagen functioned independently. This meant that these brands were able to benefit from the synergy without sacrificing their uniqueness. Various analysts compare Volkswagen's strategic expansion to the 'hubris hypothesis' and that the Volkswagen management was desperate to expand. But the pre-and post-merger statistics of the concerned companies make it evident that the company was able to perform significantly better after the merger or acquisition.

Volkswagen has run into trouble a few times as a result of its faulty electrical parts in the USA or its collusion with BMW in Europe for portraying fake emission levels for its products. The size of the conglomerate is one of the main reasons why the company was able to overcome the lawsuits. The damage suffered to Volkswagen was rectified through its other brands like AUDI, Porsche, Lamborghini, Skoda, etc. The concept of 'Strategic Restructuring' employed by Volkswagen is a valuable lesson for other companies. The Volkswagen Saga proves that planned restricting along with flexible strategies will enable a company not only to survive in a competitive market but also to make one's mark in it.