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Controversial company bankruptcy

In 1961, the company was forced into liquidation by creditors. Carl Borgward died in July 1963, still insisting the company had been technically solvent. This proved to be true in the sense that after the creditors were paid in full, there was still 4.5 million Marks left over from the business. [7] [8]

Controversy over the bankruptcy persists

Reports of difficulties at Borgward surfaced in an article that appeared in Germany's leading news magazine, “Der Spiegel” on 14 December 1960. [9] The very long, detailed, and in places repetitive Spiegel article was highlighted by means of a picture of Borgward, cigar in mouth, on the magazine’s front cover. It was strongly critical of Carl Borgward's business approach, and included many of the arguments later advanced to explain or justify the company’s demise. The widest range of cars from any manufacturer in Germany, produced by three till recently operationally autonomous companies (Borgward, Goliath and Lloyd) was supporting a turnover of only 650 million Marks, placing the overall sales value from the combined Borgward auto businesses only in fifth position among Germany's auto-makers. The 70-year-old Carl Borgward's "hands-on" insistence on an increasingly manic proliferation of new and modified models featuring adventurous, but under-developed technological innovations ("fast manisch[e] Konstruierwut") gave rise to components which too often did not work, broke down or fell apart, resulting in massive bills for pre-delivery remediation and/or post delivery warranty work that found their way back to the company.

The December 1960 Spiegel article was not the only serious public criticism targeting Borgward at this time: suddenly stridently negative (if more succinct) comments also turned up in the influential mass-market Bild newspaper and in television reports. Critical media commentaries also appeared concerning large loans to the Borgward Group provided by the local Landesbank. [10]

It is apparent that the business was confronting cash-flow difficulties at the end of 1960. Capital
intensive businesses such as auto manufacturing use their expensive machines and tools most efficiently if they use them constantly at full capacity, but the car market in Europe in the 1950s/60s was more seasonal than today, with sales diminishing in Winter, then peaking in the early summer months: Borgward’s inventory of unsold cars at the end of 1960 was higher than usual, reflecting ambitious growth plans, most obviously in respect of the United States market[11] The December 1960 Spiegel article speculated that of the 15,000 Borgward cars ordered by the North American dealers in 1960 (and of the 12,000 delivered to them) 6,000 might have to be taken back following a slump in North American demand. (Borgward was not the only European auto maker hit by a North American slump in demand for imported cars during 1960. In the same year two ships carrying Renault Dauphines were turned back in mid-Atlantic because the docks in New York were overcrowded with unsold Dauphines.)[12]

At the end of December 1960 Borgward approached the bank for a further one million Marks of credit, the loan to be backed by a guarantee from the Bremen regional government which initially the Bremen senators agreed to provide. However, following the flood of critical press comment the senators withdrew their guarantee. They now required Carl Borgward to pledge the company itself to the state in return for the guarantee. After a tense 13-hour meeting widely reported in a still hostile media, Borgward agreed to the senate’s terms on 4 February 1961, thereby averting the bankruptcy of the business.[13]

The Bremen Senate also insisted on appointing its own nominee as chairman of the company’s supervisory board. The man they chose was Johannes Semler whom reports generally describe as a “Wirtschaftsprüfer” (public auditor),[14] though this designation, especially once translated into English, does less than full justice to the breadth of Semler’s career. He had studied law at university and worked initially as a lawyer. The scion of a leading Hamburg political family, in 1945 he had himself been a founding member of the centre-right CSU party, and was a member of the Bundestag between 1950 and 1953. Despite his Hamburg origins, Semler was by this time based in Munich, with a network of contacts in the Bavarian establishment that probably included fellow CSU politician and the future German chancellor, Ludwig Erhard, who in 1948 had succeeded Semler in a top administrative position within the Bizone. The appointment of Johannes Semler as the representative of the Bremen senators to chair the Borgward supervisory board would, in retrospect, contribute to the controversy that followed the Borgward bankruptcy.[15]

On 28 July 1961 Semler, as Chairman of the supervisory board joined the directors of the three companies Borgward, Goliath and Lloyd to instigate proceedings for the establishment of a “Vergleichsverfahren”, which would have provided for a court sanctioned scheme of arrangement enabling the business to continue to trade while at the same time protecting the interests of creditors.[16] Two months later, however, in September 1961, the Borgward and Goliath businesses were declared bankrupt, followed in November by the Lloyd business. Subsequent “conspiracy theorists” have suggested that Semler, for reasons of his own, never had any intention of allowing the Borgward auto-businesses to survive.[17]

The conspiracy theory

Carl Borgward himself would not accept that the Borgward, Goliath and Lloyd auto businesses
were technically insolvent, and the fact that none of the companies’ creditors lost money supports his case. In the light of what was known at the time, and increasingly in the light of subsequent events, the argument that the business was not really insolvent at all has, if anything, gained support. Nevertheless, evaluation of the issues requires informed and careful judgement, and the opposite case can also be made, that had the company continued trading beyond 1961 there was no reasonable prospect that it would generate sufficient cash to repay existing debts within a contractually established or reasonable period nor, indeed, to repay all necessary subsequently incurred financing and other business debts. At best, Borgward by the middle of 1961 was seen by potential investors and lenders as a much riskier prospect than it had been a year earlier.

The case for a conspiracy

It has been suggested that the media onslaught launched against Borgward at the end of 1960 was part of a well orchestrated covert campaign by other German auto-makers, jealous of Borgward’s success and spotting an opportunity to eliminate a significant rival. Even now, the Spiegel article of 14 December 1960[9] is strangely shrill, partisan, and out of line with the dry tone that characterised most serious business reporting at the time.

Johannes Semler, appointed by the city fathers to chair the supervisory board, ostensibly, in order to guide the business towards a more secure future, appeared a strange choice for the role despite his excellent network of contacts and long experience at the interface between business and public life. The appointment appeared stranger still after his simultaneous appointment, in 1960, to the board of BMW in Munich, his more recent political power base and by now his adopted home city. BMW had lost its old manufacturing facility in 1945 when Eisenach had ended up under Soviet control and since then had itself struggled to survive financially.

Cui bono?

In fact, the appointment of Semler to the BMW board was one of several events which, in rapid succession, marked an improvement in the fortunes of BMW. BMW had itself come close to bankruptcy in 1959, but had been rescued thanks to a massive additional investment by Herbert Quandt, who became, behind the scenes, a remarkably successful “hands-on” principal BMW shareholder. Key to the company’s future was a new saloon/sedan smaller and more sporty than a Mercedes-Benz yet larger than a Volkswagen, and more stylish than anything then to be expected from Opel or Ford. Quandt also recruited an energetic sales director for BMW called Paul G. Hahnemann who later would assert that the BMW 1500, launched at the Frankfurt Motor Show in September 1961, created an important new niche in the German car market. Hahnemann repeated his boast so often that he gained the sobriquet “Nischen-Paule” in the press. Those who contend that Semler’s role in the Borgward bankruptcy was part of a conspiracy orchestrated on behalf of BMW to bring down Borgward point out that the “niche” allegedly defined by the mid-weight BMWs from 1961 actually bore an uncanny resemblance to the niche previously occupied by the Borgward Isabella during the 1950s.

The case against a conspiracy

Cases against conspiracies are seldom as compelling as cases in support of conspiracies.
Nevertheless, Carl Borgward’s management style had never been collegiate, and during several decades as a swash-buckling engineer-entrepreneur he had never shown much appetite for opinions at variance with his own. The Spiegel article that kicked off the press onslaught in December 1960 included a withering attack on Borgward for having recently laid off 2,000 people as part of a belated attempt to streamline administration and production. In a period of boom there was little doubt that the affected workers would have found job opportunities with other German automakers, but they would have needed to relocate away from Bremen, and the Spiegel’s description of Carl Borgward’s implementation of the redundancies savagely implied a singular absence of human sensitivity. One way and another, Borgward had over several decades enjoyed plenty of opportunities to create enemies, able to feed toxic stories to the media without any need for a conspiracy among rival auto-makers.

Borgward’s approach to “product planning” was remarkably profligate. In West Germany only Opel, at this time, came close to Borgward in terms of frequency of model changes and facelifts. But Opel were backed by the financial muscle and the strong management support of General Motors, the world’s largest auto-maker and at that time itself a fabulously profitable corporation. In contrast, Borgward had only a generous (but not bottomless) credit facility from the local state bank which he coupled with a personal disinclination to delegate or discuss business decisions. Opel, for all their flamboyant marketing and a domestic market share second only to that of Volkswagen, at this time offered only two models, the Rekord and the Kapitän. It is difficult to keep up with how many different models the Borgward group was supporting. In addition to various commercial vehicles, the 1961 passenger car range included the Lloyd Alexander, the Lloyd Arabella, the Goliath 1100 (rebadged in 1959 as the Borgward 1100), the Borgward Isabella and the Borgward P100. The company’s reputation for serious teething troubles on new models was not simply the result of malicious press reporting. Borgward was managed by a 70 year old autocrat without an obvious succession plan. At the height of the crisis talks in 1961 Carl Borgward received (and robustly rejected) a 200 Million Mark offer for his business from Chrysler corporation. Even without his own personal BMW connections, chairman Semler might reasonably have concluded that the Borgward business as then configured had no realistic prospect of remaining solvent for more than few more months without collapsing into a yet more destructive bankruptcy from which creditors would not recover all their cash, and which could easily end up with the company becoming a third significant foreign transplant to compete on financially unequal terms with the domestically owned auto-industry.