

THE DAIMLERCHRYSLER MERGER – A CULTURAL MISMATCH?

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Abstract

American company Chrysler Corporation due to differences in the organizational cultures involved or due to a so-called 'clash of culture'. What happens when two successful car producers with different know-how and a different knowledge background, different work processes, different product portfolios and last but not least, completely different corporate cultures decide to merge? Daimler-Benz and Chrysler wanted to strengthen their position during economically difficult times for the car industry by juggling the crisis together and they hoped to be able to combine their strengths. Therefore the two companies decided to fuse in 1998. But not even ten years later Daimler-Benz once again sold all its shares of the Chrysler division. The dream to become the third biggest car producer of the world, behind General Motors and Ford, burst. The expected and wished for synergy effects stayed out. Instead of gaining competitive advantage over their competitors, the merger rushed the two car producers ever deeper into the crisis and did not provide the companies with the necessary tools to overcome the recession. The presented paper deals with the failed merger of the German company Daimler-Benz with the U.S. American company Chrysler Corporation due to differences in the organizational cultures involved or due to a so-called 'clash of culture'.

Keywords: Organizational Cultures. Mergers. Competitive Advantage.

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1. INTRODUCTION

Today's economy becomes more and more affected by the continuously rising globalization. (MITTERMAIR; KNOUREK, 2006). Due to the internationalization of the markets businesses face fiercer competition, rising cost pressures and the necessity to adapt business processes at a multinational level. On these grounds, more and more cross-border Mergers & Acquisitions (M&As) can be observed.

Within the presented article the merger of Daimler-Benz, the German car manufacturer that looks back on a tradition of high-quality production of luxury cars that already began in the late 19th century and the Chrysler Corporation, that conquered the U.S. American passenger car market thanks to its innovation and creativity, is studied. The paper examines in detail two companies that in many respects could not be more different from each other. But on the other hand, they were united by the shared desire to make it to the top of the world's car industry and to strengthen their position in the ever more hard-fought industry and to gain competitive advantage over their competitors instead of lose ground during economically difficult times.

In the late 90s the world's car industry had to face a number of challenging problems. The permanent overcapacity of many carmakers, the strengthened position of the clientele and the rising environmental consciousness threatened the existence of a number of car producers. (FINKELSTEIN, 2002).

When faced with the demanding and rising challenges on the car market and according to the slogan what we do not accomplish alone, we will then accomplish together, Daimler-Benz and the Chrysler Corporation decided to merge in the year 1998, with the stated aim to generate the greatest synergy effects possible. The two companies were thought to complement each other. The strengths of one of the partners were supposed to offset the weaknesses of the other partner in order to outperform and leave a mark on their competitors.

At the time, the merger of Daimler-Benz and Chrysler was unequalled in size and importance, but despite the promising outlook it involved high risks as well. The increased risk of cross-border M&As lies within the different (organizational) cultures, languages, leadership styles, and political orientations and regulations involved. (MITTERMAIR; KNOUREK, 2006).

Objective of the presented article is to analyze the merger of the two companies Daimler-Benz and the Chrysler Corporation. After a short overview of the development of the relations between the two businesses and the necessary background information based on the activities that led to the merger, the analysis of this merger takes into account especially the two different corporate cultures of the German and the American car manufacturer. The aim is to elaborate, why it came to a so-called 'clash of culture' and what underlying reasons can be observed for the problems that occurred during the post-merger-integration.

Within this analysis the different prevalent organizational models of the U.S. and Germany play an important role. Furthermore the paper tries to shed light on the questions, if the discussed merger can be considered a 'merger of equals' and why it came to a failure despite the promising point of departure.

The presented paper is the result of theoretical investigation. The discussed results are primarily based on a case study and on further secondary literature about the companies' merger.

2THE HISTORY OF THE DAIMLERCHRYSLER AG

Within the following paragraph the development of the two companies involved is regarded. A short overview of the company history of Daimler-Benz, as well as of the Chrysler Corporation is given and it will be highlighted what milestones led to the merger.

Afterwards the focus is laid on the post-merger-integration at DaimlerChrysler and the question is raised, why a 'clash of culture' could not be avoided.

2.1 Background Information about the Merger

The well-known German car manufacturer Daimler-Benz was founded in 1926, when the Benz & Cie. Rheinische Gasmotorenfabrik and the Daimler-Motoren-Gesellschaft merged. Since the beginning, Daimler-Benz was a well-established company in the German and European car industry. The name Daimler-Benz stands for precision and German high-quality products. Cars of the Daimler-Benz brand represent cars of the luxury sector.

Despite its success in Germany and Europe, the company never succeeded in getting ahead of the competition on the big and important U.S. American market. Prior to the merger with the Chrysler Corporation, Daimler-Benz' market share of the U.S. American market was less than 1%. The high work intensity throughout its production processes in order to guarantee the high quality standards, did not allow Daimler-Benz to become competitive on the hard-fought American market.

The Chrysler Corporation, on the other hand, used to be a well-established and firmly positioned organization in the U.S. American market. Chrysler succeeded in producing car models that responded to the American demand for adventurousness and pioneering. (FINKELSTEIN, 2002). In the year 1997, Chrysler's market share of the U.S. American car industry equalled about 23%.

The company had developed an image of being a skipjack and had proven their bouncebackability a few times. Since the end of World War II, Chrysler had already faced insolvency four times, but at last it always succeeded in defending itself from the competition and to stand its ground against the competitors every single time. The company's processes were characterized by very high efficiency throughout the production process and low costs in product design and product development. In the mid-90s, the Chrysler Corporation was considered the world's most profitable car manufacturer. (FINKELSTEIN, 2002).

But it was in the 90s when times became harder for the car industry and Chrysler had to find a strategy to prepare itself for the difficult times ahead in order to avoid facing bankruptcy once again.

At that time, Daimler-Benz had to face the exact same challenges as Chrysler on the international market for passenger cars. Among other things, the two companies had to manage the challenges imposed due to overcapacities, a strengthened position of the clients and rising environmental consciousness. In addition to overcoming the mentioned difficulties, the German car manufacturer Daimler-Benz intended to strengthen its position on the U.S. market as well.

Therefore, from the point of view of Daimler-Benz, the merger with Chrysler seemed to be very promising and the company hoped for gaining a vital competitive advantage for the future. Chrysler was considered the perfect counterpart for such a deal. The yearly revenues, the high efficiency, the low costs in product design and development and a well-developed distribution network in the U.S. turned the American car producer into a very attractive target.

When decided to merge, the two companies shared the very ambitious goal of becoming the leader in the world's car industry. They aimed at reaching this goal by uniting their different know-how, their different work processes and their completely different organizational cultures in order to then make use of shared distribution channels, draw on shared technologies and take advantage of the gathered knowledge together.

Due to the developments in the car industry mentioned above and the listed reasons, the two carmakers entered into negotiations over a possible merger in January 1998. On May 7th, 1998 the two chief executives Robert J. Eaton, CEO of the Chrysler Corporation at times, and Jürgen E. Schrempp, former CEO of Daimler-Benz, announced the merger of the two car producers. The DaimlerChrysler AG was founded and became the world's third biggest car manufacturer, only defeated by Ford and General Motors in terms of yearly revenues and market share.

The merger of the two carmakers was considered a 'merger of equals'. None of the two parties wanted to takeover the other one. Rather did they want to make use of the strengths of the two partners involved and be strong together.

After the successful initial joining of the two, the successful post-merger-integration had to be guaranteed in order to ensure the long-term success of the merger. Within the post-merger-integration process it was of crucial importance to link the two completely different corporate cultures inherent to the businesses.

The following paragraph focuses on the post-merger-integration at the DaimlerChrysler AG more in depths.

2.2 The Post-Merger-Integration at the DaimlerChrysler AG

The Post-Merger-Integration (PMI) is divided into three phases: the start-up-phase, the project-implementation-phase and the business-transformation-phase.

The start-up-phase is initialized even before the actual merger takes place and includes, among other aspects, the definition of PMI-themes, their prioritization and the establishment of a PMI-organization. (GRUBE, 2006).

Subsequently the project-implementation-phase takes place, which comprises the execution of the PMI-projects. Usually the projects are differentiated by hard or soft factors of success. In the present case only the course of action regarding the integration of the two organizational cultures as the most time consuming and the most difficult aspect within the soft factors is illustrated (GRUBE, 2006), in order to not go beyond the scope of this paper.

2.3 Integration of the 2 Organizational Cultures

The integration of different corporate cultures is particularly difficult in so-called 'mergers of equals' (HOFSTEDE, 1980) as in the present case. Due to the fact that it is a merger of equals, it is not the case that the organizational culture of the buying company is imposed on the acquired counterpart. Within a 'merger of equals' the aim is to combine the cultures involved, integrate them and generate a new, shared corporate culture.

In general this integration of organizational cultures can be divided into three main stages: shock, (psychological) stress, and willingness to solve the problems. (GRUBE, 2006). These three stages of integration need their time and therefore require a certain level of patience.

At the beginning of the integration process the employees are shocked and stunned after the announcement of the companies' merger. This leads to an internal rivalry among the employees that impedes the integration. This is aggravated by the fact that well-trained and qualified personnel

neither wants, nor needs to impose itself to that kind of stress and pressure. (GRUBE, 2006). Instead of suffering from the internal competition, qualified employees prefer to leave the company. A phenomenon that can be observed in the presented case of Daimler-Benz and Chrysler as well. This loss of qualification and competencies slows down the integration process even more and makes it even harder to succeed. Only after having fought and subsequently settled the internal rivalry battles, the staff is willing to enter into the integration process.

Within the integration process it is of particularly high importance to design the process transparently and to involve the employees of both businesses involved. Furthermore, cultural differences in behaviour and attitude of the affected staff have to be taken into account when designing and managing the integration process. (GRUBE, 2006).

With regard to the integration of two completely different corporate cultures, the declared aim is to combine aspects of both cultures in one. This can become an insuperable obstacle.

In order to secure the successful integration of organizational cultures in the DaimlerChrysler deal, numerous initiatives were launched to promote the integration. Several seminars, workshops and trainings were offered that informed staff about the merger and the integration process and that aimed at sensitizing the employees for working with new colleagues with a different cultural background.

Despite all the effort in the case of DaimlerChrysler the integration process failed and several factors led to a so-called 'clash of culture'. In the following the reasons for this culture clash are illustrated.

2.4 *'The Clash of Culture'*

The integration of the two organizational cultures, of the German car manufacturer Daimler-Benz and the American carmaker the Chrysler Corporation failed due to a culture clash. Right from the very first day of the merger on, the cultural differences (MIRVIS; MARKS, 1998) made the post-merger-integration process at the DaimlerChrysler AG harder than in all other M&As (GIBNEY; SZCZESNY, 1999). Despite all efforts to harmonize the two corporate cultures and to lay the foundation for a shared organizational culture, DaimlerChrysler's management did not succeed. The two organizational cultures were too different to be integrated successfully. They were based on fundamentally different values and morals that came to light in the day-to-day work.

At first sight, the two parties involved did not seem to be all that different; they even seemed to be quite similar. They look like us, they talk like us, they focus on the same things as we do, and their English is impeccable. (FINKELSTEIN, 2002). But soon the existing differences became obvious in the daily work.

Decision making at Daimler-Benz, for example, was approached very methodical; at Chrysler on the other hand, creativity in the decision making process was asked for and strongly encouraged. Among Chrysler's values you find efficiency, empowerment of the employees and equal rights among all staff; Daimler-Benz' culture is more based on authority, bureaucracy and centralized decision making.

Another aspect that led to confrontation between the two parties, was the compensation structure rooted in the corporate cultures. The American managers received very generous pay packages that were disapproved of by their German counterparts. This amounted to problems, particularly when an American manager was transferred to Germany, for example, and gained twice as much as his new supervisor. (DUTTA, 2001). DaimlerChrysler's management sought an approximation of the two compensation structures and a solution to the problems, by fixing very

low base salaries and complemented by high performance-based incentives.

Furthermore the German and Americans employees resulted to be very different in their working methods: a lot of red tape versus no red tape; very long or even endless reports and discussions versus reports based on the minimum necessary. The Americans preferred the trial-and-error-method to come to a solution and that is why they thought to be very chaotic and disorganized, because the Germans favoured to develop detailed plans and the precise implementation of these plans.

Another important difference is reflected in the organizational structures of the two parties. Chrysler's management backs on flat hierarchies, which causes incomprehension among the Germans that are known for their pronounced hierarchies and their top-down-management.

Due to the numerous differences in the organizational cultures, the integration process at DaimlerChrysler failed. Management did not succeed in bringing in line the two cultures and it failed in laying the foundation for a shared corporate culture that reflected aspects of both cultures.

The cultural differences discussed above, result, for the most part, from the different organizational models applied in Germany and in the U.S. These different organizational models are discussed subsequently.

3 ORGANIZATIONAL MODELS

In order to understand how organizations function and to grasp the differences between companies from different cultural backgrounds, it is important to consider the organizational models prevailing in the respective countries (NAKATA; SIVAKUMAR, 1996). Frequently these models are rooted deeply within the companies and the organizations orientate themselves by these models.

In the following, a closer look is taken at the U.S. American model and the German model, with the aid of which the cultural differences at Daimler-Benz and Chrysler that were discussed above can be explained for a great part.

Their deep entrenchment with the history of the respective country characterizes these organizational models. The derived principals, values, norms and morals are often deeply rooted in the country's history.

3.1 The U.S. American Model

The history of the U.S. is based on four major pillars. First of all, it is a country of immigrants; the melting pot, in which people from the most diverse cultural backgrounds were melted into one nation. Therefore diversity and its management play a very important role in today's American companies. Second of all, its frontier spirit characterizes the American nation. At first, only the east coast of the American continent was colonized, but thanks to the frontier spirit and the people's strong determination the boundaries were pushed west more and more. Third of all, the Americans succeeded in conquering the whole continent, expelling the natives from their territories. (HOSFTEDE, 1980). Last but not least, the Protestantism forms an important pillar in U.S. history. Today's values, morals and characteristics of the American people can be perfectly derived from these four pillars.

The Americans are very individualistic and feel themselves responsible for themselves instead of relying on others in reaching a goal. In a business context this is expressed, for example,

in the fact that working contracts can be negotiated individually. Therefore everyone is responsible for his or her own performance in salary negotiations. This individualism characterizes the American people, but they also know that this individual unfolding is only possible to a certain degree and within certain general limits and regulations imposed by society.

Moreover the Americans are very pragmatic and work efficiently. In many cases American companies are goal- and performance-oriented. What counts are the results, not how the results were attained. Therefore the trial-and-error-method is often applied to solve a problem, reach a decision or goal. But for the Americans time also plays an important role, because time is money and therefore a scarce resource.

Americans are used to face fierce competition and in a free market economy everyone is responsible for his or her own economic survival. Within this rivalry battle, they call for certain moral rules and regulations that have to be complied with.

When evaluating the U.S. American model according to Hofstede's dimensions, it must be observed that the Americans – in comparison with the Germans – live in a society that is more based on equality and where the power distance is smaller. They are characterized by the strong individualism and rely to a smaller degree on society or – in a business context – on groups or teams. In addition they are more short-term oriented and therefore more willing to take risks and show more flexibility.

3.2 The German Model

In contrast to the U.S. American model, a greater power distance in German businesses characterizes the German organizational model. Hierarchies play an important role in negotiations and are based on authority.

The Germans are less individualistic and think more team-oriented. It is not always the individual that comes first. They see society or, for example, a team or a work group, as a kind of security and protection, which is very important for them, because in general they are much more risk-averse than the Americans. Due to their fear to take risks, they are often highly sceptical towards novelties.

The decision-making process according to the German model is also fundamentally different. Instead of reaching a decision or a solution by trial-and-error, the Germans develop very detailed plans. Elaborating such a detailed plan takes more time, but once a decision is reached, plans get implemented very quickly and highly precisely.

4 THE DAIMLERCHRYSLER DEAL – A MERGER OF EQUALS?

After studying the development of relations between Daimler-Benz and the Chrysler Corporation, analyzing the reasons that led to the 'clash of culture' and introducing the different organizational models involved, the following paragraph tries to give an answer to the question whether the merger of Daimler-Benz and Chrysler was really a 'merger of equals'?

The merger of the two companies was supposed to serve a shared goal and both parties involved in the deal hoped for gaining competitive advantages thanks to newly created synergy effects. Therefore at first sight the merger was considered a 'merger of equals', but soon it became obvious that this was not really the case, just like in many other preceding cases.

The name of the newly founded company seemed to promise equal status of the two organizations, as well as the co-management of the DaimlerChrysler AG by Jürgen Schrempp – former CEO of Daimler-Benz, together with Robert Eaton – former CEO of the Chrysler Corporation, suggested that the merger of the two car manufacturers was one of equals.

But during the post-merger-integration it came to certain difficulties and discrepancies due to the differences in the organizational cultures involved. Furthermore the leadership duo, Schrempp and Eaton, did not seem to be in agreement about where to lead to the joined company. It appeared to be the problem, that Chrysler was neither acquired by Daimler-Benz, nor was it guaranteed equal status to its German partner. (FINKELSTEIN, 2002).

At first, the German management granted Chrysler the freedom to do what they had always done and management bet on Chrysler's past successes. Chrysler was supposed to continue operating just like before the merger and Daimler-Benz wanted to simply take advantage of Chrysler's efficiency. But the crux of the matter was that they did not take into consideration that due to the merger the situation had changed, a number of key players had left the corporation and remaining employees were demoralized and demotivated.

Due to the emerging problems the German management took over the whole company's management. During the years 2000 and 2001 the two american successors of Eaton, James P. Holden and Thomas T. Stallkamp, were dismissed consecutively within 19 months only. They were replaced by the German manager Dieter Zetsche. In addition Zetsche appointed another German manager, Wolfgang Bernhard, as the new COO. The Germans took over the leadership squad at the Chrysler division. It became apparent, that the DaimlerChrysler merger could no longer be considered a 'merger of equals'.

Moreover, in the year 2000, Schrempp stated officially that he had never had the intention of a 'merger of equals'. And he added that if the real intentions of Daimler-Benz had been publicly known right from the beginning, the merger of the two car manufacturers would never have taken place.

Hence, the merger of the two once successful businesses was foredoomed to failure. From Chrysler's point of view, Daimler-Benz turned out to not be the hoped for strong partner, that would help the corporation to manage the new difficult challenges that occurred in the car industry. Instead of strengthening one another, instead of generating and making use of new synergy effects, and instead of gaining competitive advantages over the competitors, the merger with Daimler-Benz drove Chrysler into chaos. During the third quarter of 2000, Chrysler had to enter a loss of \$512 million and the share price dropped dramatically from \$108 in January 1999 to \$40, so the sale of the Chrysler division in 2007 seemed inevitable.

5 CONCLUSION

A large number of cross-border M&As fail because of seemingly insurmountable difficulties. And so did as well the merger between the two car manufacturers Daimler-Benz and the Chrysler Corporation. The promising merger failed due to cultural discrepancies that could not be bridged.

The failure of this merger was not caused by the fact that it did not make sense to join two successfully operating businesses of the same sector in order to make use of the one company's strengths to complement the other company's weaknesses. From a strategic point of view, this merger did make sense (DUTTA, 2001), but the problems that doomed the merger to failure

were the opposing and contrary corporate cultures and organizational models, that presented insurmountable obstacles.

Within the merger, Daimler-Benz tried to administer the Chrysler division as if it was a German company. This approach was foredoomed to fail right from day one on. When it comes to cross-border or cross-cultural M&As, you must not disregard the cultural differences inherent. One corporate culture cannot simply suppress and replace the other one (DONEY et al., 1998). A consensus has to be reached and the foundation for a new culture, based on elements of both cultures involved, has to be laid.

In the case of DaimlerChrysler, both parties were never truly willing to cooperate wholeheartedly and to accept changes and to enter compromises in order to make this merger of the two companies a success.

In order to avoid the failure of cross-border M&As, it is of very high importance to consider the important aspects even before the actual merger takes place. It is important to take into account in which areas it will come to cultural discrepancies and how they will influence day-to-day work. Will there occur communication problems due to language barriers and how will they be solved? How should different leadership styles be managed and applied? Moreover is it crucial to identify and to define precisely common goals and to elaborate certain norms and regulations for business processes. Furthermore a good and far-reaching communication strategy is indispensable.

To conclude the presented article, it must be summed up that the merger of Daimler-Benz and the Chrysler Corporation was not foredoomed to failure right from the beginning, but rather occurred due to cultural differences and wrong management decisions. If both parties had put all cards on the table from day one on, if they had combined their strengths to pursue a shared goal, if they had paid more attention to the cultural discrepancies and therefore managed the post-merger-integration process successfully, they would have had great chances to generate vital synergy effects and become a leading figure in the world's car industry.

The discussed merger of the two car manufacturers Daimler-Benz and the Chrysler Corporation is a perfect illustration of how cultural differences in cross-border M&As can determine the success or failure of such a merger. In this case the two once successful companies did not succeed in joining their strengths and complementing each other's weaknesses to overcome a crisis together. But hopefully this example of failure will serve as a lesson to learn from for future cross-cultural M&As. ♦♦

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