Effect of Organizational Cultures on Mergers and Acquisitions: The Case of DaimlerChrysler

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Inquiry into past partnership waves provides guides about their causes and failures. These guides are applied to distinct organizational culture issues that were a major barrier to each stage of the DaimlerChrysler merger and will likely continue to plague the union for years to come. Some of the lessons to be gleaned from the DaimlerChrysler experience are a reaffirmation of lessons reported in the literature while others are unique to this merger. The objective is to provide guides about how to avoid similar pitfalls in dealing with organizational culture in cross national partnerships and improve their success as the economy goes global.

Partnerships, of any form, be they mergers, acquisitions or joint ventures, are a viable strategic option to achieve the objectives of growth, diversification, economics of scale, synergy or a global presence.

Partnership strategies recently have run in waves. The previous partnership wave of the 1960-1970's was of the conglomerate type, partnering with an organization in an unrelated field (Cartwright & Cooper, 1995). To get a feel for the scope of this wave, it was estimated to have affected 25 percent of the U. S. workforce (Fulmer, 1986). The failure rate of this wave is also legendary with estimates ranging from a pessimistic 77 percent to an optimistic 25 percent (McManus & Heggart, 1988; Marks, 1988). The typical reason for failure was the partnership was based only on financial and economic information or what is more commonly called "hard" data and rarely involved data to support the meshing of the organizational cultures or the "soft" and "mushy" issues (Cartwright & Cooper, 1995). Conglomerate types of partnership agreements are likely to focus on the financial and planning systems at the corporate level. The operating division will remain independent, and therefore, are unlikely to have their organizational culture directly affected. Therefore, the inadequate meshing of the two organizational cultures as the cause of the partnership failure is, from a theoretical viewpoint, unusual (Hunt, 1988).

The 1980-90's wave of partnerships contrasts significantly from the 1960-70's wave in that they were of the horizontal or related business type -- partnerships between organizations in the same field of business activity or industry (Cartwright & Cooper, 1992). Again, to get a feel for the scope of this wave, there were 49 partnership forming activities valued at $6.88 billion announced for the first quarter in 2000, up from 1999's 36 deals in the first quarter valued at $1.88 billion (Lipin et. al., 2000). Research indicates that between 55 to 75 percent do not to meet the anticipated purpose and expectations
for the partnership and are therefore considered failures (Carleton, 1997). Recent examples include Time Warner and AOL (Colvin, 2003) and Lowe Worldwide and Ammirati Puris Lentas (O'Leary & Mc Manins, 2001).

It appears that management has not learned anything about partnership formations from the failures of the 1960-70’s wave because over one-half the time a partnership does not succeed, the fundamental cause is cultural-clash (Gibbon, 2002). Cultural-clash brings about lower commitment and cooperation from employees (Bruno et. al., 1984; Sales & Mirvis, 1984), greater turnover (Hambrick & Cannella, 1993; Lubatkin et al., 1999), deterioration in operating performance (Very et al., 1997; Weber, 1996) and a decline in shareholder value (Chatterjee et al., 1992).

While it is generally agreed, that cultural compatibility is the greatest barrier to successful partnership integration, investigation of cultural factors is least likely to be conducted during the critical due diligence stage (Horwitz et. al., 2002). The first conclusion derived from a six month study of 156 companies in North America, Europe, and Asia-Pacific, conducted by Right Management Consultants, was pay attention to differences in organizational culture and be prepared to address them. The study continued that the most damaging obstacles to a successful partnership are not created by geographic differences or language barriers but by differences in organizational culture. Regrettably, most companies fail to anticipate the toll that differences in organizational culture can take on their projects (Johnson, 2004).

Once a potential partner is identified, the “due diligence” is completed which involves a detailed analysis of the target firm’s financial data, market presence, physical assets, business model, and legal issues (Krallinger, 1997). Even though history, research, and experience has strongly recommended the importance of addressing cultural fit, and there are no “soft” issues in developing new partnerships, the all important people issues continue to be neglected. (Johnson, 2004; Gibion, 2002). One researcher confessed to “no knowledge of firms developing a comprehensive cultural fit audit as a component of due diligence.” (Carleton, 1997).

What is this powerful force called “organizational culture” that can dictate success or failure in partnerships, and is so easily overlooked? It has been defined in various theoretical and practical ways. To work with the culture of an organization is to work with all facets of a company that have any bearing on why people behave the way they do on the job from day to day (Gibbon, 2002). It is the traditions, shared beliefs, and expectations about how individuals behave and accomplish tasks in organizations (Cartwright & Cooper, 1993). One author states that organizational culture has a minimum of two levels: objective and subjective. Objective aspects include artifacts, office location, physical setting, office décor, etc. The subjective level includes shared values and beliefs (Schein, 1985). Another author breaks culture down into three components: structure, politics and emotions (Clemente & Greenspan, 1999).

Suffice it to say, all organizations have a culture, an interrelated set of beliefs, shared by most of the members of the organization about how people should behave at work
and what tasks and goals are important (Baker, 1980). The culture also includes and is shaped by the pattern of successful internal responses to adapt to external threats and issues (Gordon, 1991). Because the culture is a result of past successes, it will resist change even though a change in the environment, specifically a merger or acquisition, might necessitate a change in the culture. (Hofstede et. al., 1990).

Among the industries, the auto industry has a long history of horizontal or related type partnerships formations. There have been a few recent successful partnership formations such as Chrysler-Jeep in 1987, Renault-Nissan in 1999, and Ford-Volvo in 1999 (Feast, 2003). However, the Wall Street Journal announcing a new partnership in the auto industry is a presentiment of what will become another partnership tombstone. Examples include BMW AG’s ill fated six-year ownership of United Kingdom’s Rover Group (Feast, 1998). After 34 years of ownership, Fiat Auto’s partnership with Lancia has to be judged a failure (Feast, 2003). Ford Motor Company partnered with Jaguar 14 years ago and it is unlikely Ford will ever recover its total investment. General Motors has been in partnership with Saab for 13 years and is also unlikely to recover its costs (Feast, 1998). VW’s brand buying of Lamborghini, Bentley and Bugatti has yet to benefit stockholders (Feast, 2003).

The auto industry has this rich history of successful and unsuccessful partnerships. Does it appear the industry leader’s benefit from this experience and memory? Probably not, because more failures than successes have resulted from all of the high profile partnerships in the postwar auto industry (Feast, 2003). Again, the most often cited reason for the failures is the total lack of understanding between the two parties of the culture, personalities, nationality and technological systems (Feast, 2003).

For recent evidence, look no further than DaimlerChrysler AG. At the time of merger, the Chrysler stock was traded at $84. After a short period of high value stock price during the first and the second quarter of 1999, the stock value started to drop for the balance of the 1999, and continued to the lowest price of $37.75 in November 2000. The situation became so onerous that the company announced the major actions of laying-off 26000 employees and the closing of six plants in the U.S. operations (Mateja, 2001).

The merger of Daimler-Benz and Chrysler which was initially announced as the “merger of equals” (Vlasic & Bradley, 2000), did not live a long life. In a matter of two years, all the top American executives have either retired, left, or were fired, and were replaced by German employees. The morale among the American employees was at its lowest, causing anxiety and low productivity. A joke that made the rounds in Detroit summed up the conventional wisdom: “How do you pronounce Daimler Chrysler? Daimler – the Chrysler is silent.” (Business, 5(10)).

The decline of profitability and the fall of stock price have been attributed to a multitude of issues resulting from the external elements (highly competitive supply of new models by other manufacturers, and the economy as a whole), the internal elements, such as the decision making processes under the new organization and the evidence of
the cultural barriers which made the operations less efficient. As auto analyst, Maryann Keller noted on this merger, “. . . merging corporate culture is the biggest uncertainty. When it comes to the culture of these two companies [Chrysler and Daimler-Benz], they are oil and water” (Feast, 2003).

**Purpose**

It is improbable to develop an exhaustive list of cultural characteristics that would be of interest in the context of partnership formation. Therefore, we will eschew this effort. What we will do is discuss the ramifications of organizational cultural affects on the merger of Daimler-Benz and Chrysler. The merger process contains the following stages: (1) prospect search and identification, (2) due diligence, (3) negotiations, (4) transition management (blending of systems), and (5) operation as an integrated unit. Furthermore, because of space and interest limitations, we will focus on the distinct cultural issues that were a major barrier to each stage of the DaimlerChrysler merger and will likely continue to plague them for years to come. The objective is to provide guides about how to avoid similar pitfalls and improve the success of future partnership efforts.

The economic and market pressure at the time of the merger cannot be overlooked, but in a successful company, it is the culture that underpins management actions that sustains the organization through changes. The existence of the cultural clashes among the Germans and the Americans at the time did not allow the formation of a unifying and cohesive culture that supported management in its effort to inspire a shared vision as a basis for leading the new organization.

**Prospect Identification Due Diligence**

**Daimler-Benz**

In the late 1980s, Mercedes-Benz found itself under assault from a host of new competitors, most notably from Toyota Motor Company’s Lexus division. That sent its sales and market share sliding. Mercedes struck back by slashing costs and emphasizing customer needs over engineering. The payoff was sweet, with sales reaching record levels. Meanwhile, parent company Daimler was engaged in non-auto businesses such as Dutch-based Fokker, a money-losing aircraft company (Eistenstein, 1998).

In January 1997, the supervisory board of Daimler approved the restructuring of the company by merging Mercedes into Daimler, and named Jurgen Schrempp as its CEO of Daimler-Benz. This was the plan that Schrempp had proposed to the board for the sake of efficiency and cost savings, after considerable political maneuvering. As part of his restructuring, Schrempp in a speech delivered during the annual North American International Auto Show, clearly expressed the platform he had established for Daimler-Benz. Strengthening the pillars of Daimler-Benz by improving the competitiveness and the capital returns of each business units, acceleration of the existing business through the penetration of fast-growing markets and the development of new products. Also, speed up globalization by establishing new production platforms for emerging markets, especially in Asia. (Vlasic & Stertz, 1998)
A report prepared by market analysts confirmed Schrempp’s fear about the growth limitations of Mercedes-Benz. The report concluded the A-class product was too expensive, with too much high technology for the targeted high growth emerging markets. The analyst recommended Chrysler as the best company to partner with to achieve Schrempp’s goal of attaining a broader market base. The report contained typical due diligence information on Chrysler’s capital employed, return on capital, the operating profits, the products, breakdown of sales geographically, and the corporate culture. Based on an analysis of the report, Schrempp was convinced that Chrysler was the best partner to help achieve profitable growth. As one of his aids eluded Daimler-Benz did not want to end up as a subsidiary of a United States firm like Jaguar did with Ford. (Vlasic & Stertz, 2000)

Chrysler
Chrysler all but abandoned Europe in the late 1970s when financial woes forced it to retreat. Struggling to meet payroll and losses piling up, Chrysler persuaded the Carter Administration to provide $1.5 billion in federal loan guarantees.

Chrysler, to achieve its goal, spent billions of dollars for upgrading its minivans and Jeep product lines, which it acquired when it bought American Motors Corp. in 1987 from Renault. That move proved to be a great success as American car buyers shifted their purchase decisions to these product types. By the mid-1990s, Chrysler was the most profitable car company in the world. (CNN Financial News, 1998)

Bob Eaton, Chairman, Chrysler Corp. recognized the overcapacity and excess production in the auto industry to be a major problem for future profitability and ultimately survival of Chrysler. He estimated the overcapacity to equal the size of six Chrysler Corporations. He further speculated that in ten years, the number of automakers would shrink from forty to twenty, and in twenty years, the number will shrink by one-half again. He then concluded that Chrysler might not make it on its own. To survive, it needed a partner (Financial Times, 1998).

The prospect identification was well thought out. Daimler-Benz and Chrysler each brings to the proposed merger strengths that support the overall objective of the new entity. Discussions were amicable at this point because it is part of the “courting process.” Although, as will soon become apparent, Daimler-Benz had some “make or break” parameters that they did not lay out in the open on the table.

Furthermore, examination of the due diligence report illustrated the classic mistake of focusing only on Chrysler’s capital employed, return on capital, the operating profits, the products, breakdown of sales geographically, physical assets, and legal issues, with little investigation of the various aspects of organizational culture.

Cultural Issues During The Negotiations
Following the due diligence report and the decision to merge the process preceeded with the negotiations. This was accomplished by the formation of a merger team. The
merger team’s objective was to attain agreement between the two partners about how to address and resolve the most sensitive and contentious issues and become the foundation to complete the merger. Agreement about how to resolve many contentious issues was not achieved. The more serious, and later determined, deadly issues that continue to haunt the firm today are discussed below.

1. Merger of Equals. From the beginning, it was clearly expressed by Jurgen Schrempp to his team members involved in the merger exploratory period, during the merger negotiations, and to the transition team members that, “under no circumstances would Daimler ever be the junior member of any merger, and we must have the leading role”. (Vlasic & Stertz, 2000). But, during the merger discussions and negotiations, he assured Bob Eaton, Chairman of Chrysler that the merger would be the “merger of equals,” as Eaton expected, with one management team composed of executives from both Chrysler and Daimler. This was the core of Eaton’s selling point to his management team and the board members. (Vlasic & Stertz, 2000). As we will see later, Chairman Schrempp denied having given such commitment, and attributing that to misunderstanding by the U.S. management.

2. Domicile of the new company. The issues pointing out the advantages and disadvantages of establishing the company as a German entity versus an American corporation were studied carefully by both sides. Also, the possibility of selecting a third location, such as Netherlands was studied.

For the Chrysler Management, the domicile of the new company was predicated on the most financial and tax advantages point of view from both sides. For Schrempp, however, there was no way he could merge Daimler and Chrysler as an American Corporation. His supervisory board would not accept it. He could bring Chrysler into the fold, but could never move Daimler out of Germany. For that, Schrempp was ready to wheel and deal on the composition of the management and the price paid to Chrysler shareholders, but he would never compromise on the new company as a German entity. (Vlasic & Stertz, 2000)

After considerable evaluation it was determined that the single best way to ensure a tax-free deal for shareholders was to create a new German company. This obviously was good news for Schrempp, but, for Eaton, he wanted something in return, “the name” of the new company could be the equalizer in the trade-off. (Vlasic & Stertz, 2000)

3. Naming the new company. Once it was decided the new company was going to be a German company, Eaton was sure that he could get the name Chrysler before Daimler to convey the merger of equal’s philosophy. Eaton’s advisors were not optimistic about that and warned Eaton about the sensitivity that Germans have toward name, specially, the name such as Daimler-Benz with such a long term of history and heritage. When Eaton announced to Schrempp that the name would be ChryslerDaimler-Benz, Schrempp rejected it and offered a compromised version of “DaimlerChrysler” and dropping “Benz.” He further emphasized the importance of the name to the point that the name was a “deal breaker.” Eaton accepted Schrempp’s proposed name with the codicil that a
Chrysler executive would replace Schrempp on the board upon Schrempp’s retirement. (Vlasic & Stertz, 2000).

It seems that Schrempp had not been forthright in the prospect selection stage and he had a “hidden agenda” that subverted the negotiations from the beginning. Throughout the merger negotiations, Eaton, made big compromises; the domicile, the name, and later, his fixed tenure of three years as co-chairman of the new company which created a huge leadership crisis in the U.S. operations. With the German’s domination of the bulk of these issues, it was not clear if this was truly a “merger” or an outright acquisition. The ramifications of the way these issues were “negotiated” prevented the new entity from functioning as an integrated unit.

**Cultural Issues During Transition Management (Blending Of Systems)**

The transition management team responsible for blending the two companies into one was comprised of American and German executives representing their respective companies’ interests. The U.S. team traveled to Stuttgart and the German team traveled to Auburn Hills by alternating the sites to emphasize equality between the teams. During the transition, there were many cultural issues that surfaced and presented challenges to both sides. Among the cultural fit issues were several, discussed below, that were not resolved and continue to plague the new company in its efforts to operate as a unified team.

1. **Executive compensations:** One of the thorniest issues at DaimlerChrysler was the sharp discrepancies in compensations paid to the executives in the U.S. and Germany. As an example, in 1997, Jurgen Schrempp, chairman of Daimler-Benz received an estimated compensation package of $1.5-$2m. At Chrysler, by contrast, Bob Eaton, was paid a base salary of $1.6m and a bonus of $3m, for a total of $4.6m. He also made another $5.2m by exercising stock options. (Simonian & Tait, 1998)

2. **Business Travel:** Daimler-Benz employees flew first-class, in keeping with the company’s luxury image. At Chrysler, only top officers could fly first-class. This may have seemed a mundane issue, but the travel policy became a major source of conflict that took over six months to resolve. (Muller, 1999)

3. **Work habits and styles:** The Daimler organization embraced formality and hierarchy, from its intricately structured decision-making processes to its suit-and-tie dress code and respect for titles and proper names. Chrysler, on the other hand, disregarded barriers and promoted cross-functional teams that favored open collars, free-form discussions, and casual repartee. Daimler executives had larger staffs and fatter expense accounts. Chrysler officers had broader responsibilities and bigger salaries and bonuses. The Germans smoked, drank wine with lunch, and worked late hours. Chrysler banned smoking and alcohol in its facilities. The Americans worked around the clock on deadlines but did not stay late as a routine. (Vlasic & Stertz, 2000).

4. **Decision making process:** At Daimler, the German employees decisions worked their way to the top of the hierarchy through formal channels, then they were set in
stone. At Chrysler, the executives allowed mid-level managers to proceed on their own initiatives, sometimes without waiting for executive level approval (Vlasic & Stertz, 2000).

5. Financial reporting system: The German accounting system is vastly different. Companies and stockholders focus on full-year results, so the companies crank up the numbers in the fourth quarter to make the strong numbers. Conversely, the U.S. Financial reporting system is on a quarterly basis, and is sleekly efficient (Vlasic & Stertz, 2000).

Based on the above observations, it is clear that they didn’t just make cars differently, they lived in different worlds. The cultural differences extended beyond attitudes and styles. Instead of trying to blend the best of each company’s culture, it became a question of comparing the styles. Because of that, with less than one year into the integration, Schrempp and Eaton decided to put the brakes on integration and to operate each of the three automotive units, Chrysler, Mercedes, and the commercial truck business, separately. (Muller, 1999)

Blending The Two Cultures: Post-merger

One year into the new operation, one did not hear harmonious working relationship between the German and the U.S. headquarters. Chairman Schrempp streamlined his management by purging several senior executives whose strong performance and outspoken manners were threats to his dominance. Among the casualties was Thomas Stallkamp, president of the company’s U.S. arm who was also responsible for the integration of the two companies. Stallkamp was after all the leader who Americans had respected and trusted.

Also to prove that DaimlerChrysler is a model for global mergers, Schrempp accelerated the integration. To that effect, he reduced the management board from 17 to 13 by removing unwieldy board members. The resulting board had eight Germans and five Americans. He further created three vehicle divisions; Chrysler Brands headed by James Holden (Stallkamp’s replacement), Mercedes-Benz Division, and the Commercial Truck Division (Muller et. al., 1999).

So, after a year, only a third of the top executives of Chrysler remained with the merged company. And, Robert Eaton, co-chairman of DaimlerChrysler made it clear that he would retire within three years.

Despite the merger challenges at DaimlerChrysler, Schrempp had continued his small-car strategy. Schrempp believed that the U.S. and European markets were close to saturation. Schrempp believed the next big sales surge will take place in emerging markets, where they want to buy small and affordable cars. In March 2000, DaimlerChrysler, lead by Schrempp, purchased 34% of Mitsubishi for $1.97 billion, and in June 2000, a 10% stake in Hyundai for $428 million (Tierney et. al., 2000).

In October 2000, in an interview reported in the Financial Times, Schrempp seemed to boast of deceiving the Chrysler management into thinking that the merger was to
be of equals and the two companies would be integrated. This prompted the major investor, Kirk Kerkorian, to file a lawsuit against DaimlerChrysler that was later dismissed. Schempp further said that, Eaton, for psychological reasons, insisted that as many Americans as Germans be included on the board. Eaton in a separate interview emphatically denied such conversation ever occurred and that he (Eaton) did not share Schrempp’s vision for DaimlerChrysler (Brown, 2000).

Following this controversy, Schrempp fired James Holden, the last president of DaimlerChrysler ostensibly for huge financial losses in the U.S. operations. Schrempp was later reported to have stated Holden’s dismissal was due more to cultural differences rather than financial performance (Brown, 2000). The staff of successful designers that was headed up by Tom Gale who retired to a consultant’s role, follows the departure of other key designers Neil Walling (led Chrysler’s Pacifica Studio), designer vice president John Herlitz, along with manufacturing manager Denis Pawley and the aforementioned Thomas Stallkamp (Gritzinger, 2000). With the dismissal of James Holden, and the appointment of Dieter Zetsche as his replacement, practically all the top Chrysler leaders have quit, or have been fired in the matter of less than two years after the announcement of the merger. It would seem that a major reason for the merger been lost -- Chrysler’s management expertise in mass car building to overcome Daimler’s weakness in its capability to meet the needs of the emerging auto markets. In 2000, DaimlerChrysler leadership, delayed or shelved several of Chrysler Division’s most promising products including the 300 sedan project. One of Chrysler’s competitive advantages, being quick to market with interesting designs, also seems to be lost.

When Daimler-Benz and Chrysler Corp. announced their $36 billion merger of equals in 1998, it was hailed by all automotive experts. At the time, Chrysler was the most cost efficient and profitable automaker in the world. Daimler-Benz, after a few years of set backs as a luxury car company in competition with Lexus automobiles, finally had come back as the world premier luxury carmaker. But in a short period of two years, the company has experienced mass departure of its American talents, ongoing culture clash, followed by massive financial losses. Tom Stalkamp, former president of the Chrysler Group, states in his coauthored book, Getting Bigger by Growing Smaller, that the effort to unite Chrysler Corp and Daimler Benz as equal partners was short lived, in fact, the acquiring company [Daimler Benz] prevailed in the short run and the experiment for a merger did not last a year (Stallkamp & Shulman, 2003). As a result of the merger careers were derailed, promotions were denied, reputations sullied, and there was hometown humiliation and public derision (Chappell, 2004).

To counter the above situations, CEO Dieter Zetsche outlined his strategies for the Chrysler Division in January 2001, by eliminating 26000 hourly and salaried jobs, closing six factories, and adjusting productions at other plants. In a news conference in Chicago, Mr. Zetsche stated that the automaker will lose between $2 billion to $2.5 billion in 2001, breakeven in 2002, and return to profitability with earnings of about $2 billion in 2003. He also indicated that the company will recognize a one-time $3.9 billion restructuring cost in the first quarter of 2001 (Mateja, 2001).
Daimler Chrysler then moved to combine Jeep and large car product development teams with the objective of working closely on under skin components to save money. Another objective was to share component not deemed critical to brand identity, again to save money and boost profitability. Chrysler Division also led the redesign of the Intrepid and Concord to be converted from front wheel to rear wheel drive Mercedes E class chassis (Connelly, 2003).

In 2004, Schempp’s contract was extended until 2008 although no one expects him to survive that long (Hakim, 2004). A large part of the disgruntlement with Schempp has to do with the disappointment in the performance of Chrysler Division, the attempt to add an Asian leg with the purchase of Mitsubishi Motor Corp. and Hyundai Motor Co. to propel Daimler Chrysler past General Motors, Toyota Motor Corp., and Ford Motor Company to become the world’s largest car maker. Of course the Board did not support Schempp’s grand vision and sold of its interest in Mitsubishi and Hyundai when additional funds were required (Meiners, 2005).

Schempp’s successor has already been identified. It is Eckhard Cordes. He worked with Schempp in appliances and the aircraft division. He also assumed leadership of Mercedes, and he is called “little” Schempp. Therefore, the vision of becoming the world’s largest car maker may not die with Schempp’s departure (Kurylko, 2004).

Also, in 2004, Chrysler Division started to show signs of a sustained comeback. It has made great strides with efficiency raising by 16% in two years (Economist, 2004). The introduction of the 300 sedan was widely accepted by selling 60,000 cars in five months with hundreds of confirmed orders on a waiting list and the 300 received the America’s Best Sedan Award. Chrysler Division was the only American automaker to pick up market share in 2004, about .25 percent (Mucha, 2004).

Chrysler Division freely admits the contribution of its German partner with shared operating and production systems, communization of air bags, heating, ventilation and air conditioning systems. Fully 20 percent of the parts that went into the successful 300 were Mercedes Benz components, and Chrysler Division admits that without Mercedes Benz it could not have built the 300 (Meiners, 2004).

However, the feeling is not mutual. When asked if Chrysler had made positive contributions to DaimlerChrysler since the merger in 1998, the common response is are you serious (Meiners, 2004)! Mercedes has gotten nothing in return until recently. Mercedes has suffered a brain drain to Chrysler Division of high level executives such as Dieter Zetsche and Bernhard which could be the genesis of Mercedes current situation. Even though Mercedes believes Chrysler has been brought back, they would not do the partnership all over again if the opportunity presented itself (Meiners, 2004)

Where does Chrysler Division stand with its next generation of small and medium sized cars? The DaimlerChrysler Asian strategy is in limbo and the damage at Mercedes is deep and will be hard to repair, and Schempp is till asking investors to be patient (Meiners, 2005). From a strategy view, one would have to say the DaimlerChrysler partnership
did not proceed as planned and therefore, was not a success. From an investors view, it certainly was not a success; DaimlerChrysler’s current market value is less than one-half of its market value at the time of the merger ($96.06 stock price 12/31/98 compared to $48.05 at 12/31/04). In November 2000 the stock hit its lowest level at $38, it was estimated that the DaimlerChrysler worth was less than Daimler-Benz when it was on its own before the merger (Naughton, 2000). This merger has not delivered the profits and products it promised, and the real question is will it ever? Another question is could this turmoil of missteps, backbiting, finger pointing and the admitted loss of the first two years of the merger been avoided with more thought given to the management of the organizational culture during the partnership formation. Given the “oil and water” cultures of Daimler-Benz and Chrysler Corporation, the answer is an obvious yes.

Conclusions and Lessons Learned

The merger of Daimler-Benz and Chrysler will be remembered as one of the most important marriages between two of the greatest automobile companies in the world. The merits and the faults of the merger can be debated for a long time, and hypothesis about Chrysler’s survivals on its own, and the success of Daimler-Benz as a global automaker without Chrysler can be argued by industry experts. It will be sometimes before the new company can function as a cohesive and blended workforce as it once was under the leaderships of Iacocca, Lutz, and Eaton.

There are lessons to be gleaned from this experience. Some are a reaffirmation of lessons reported in the literature while other are unique to DaimlerChrysler and they will serve as a useful guide as we experience more cross national partnerships as the economy becomes increasingly global. Those responsible for mergers must pursue the following issues with the same vigor and importance as in all aspects of partnership considerations beginning with due diligence and continuing through all aspects of integration.

1. **No partnerships of equals.** There is no partnership of equals in any combination of domestic and international corporate unions. One member of the partnership will be dominant based on financially or market position.

2. **Avoid arrogance.** Both parties come to the partnership table with difference perceptions and contributions to the union. Arrogance on the part of either party can jeopardize the value of the union, the success of the integration and the new organization’s ultimate profitability. Given that one member of the partnership is stronger than the other, this will be very difficult to avoid.

3. **Change is inevitable.** Simply saying to the employees that nothing will change is not only inaccurate, but also result in their loss of faith and trust toward management. The employees know things will change and they want to know what is going to happen to them. This ambiguity about their future will be reflected to the customer so it needs to be addressed early in a forthright fashion.

4. **Culture.** Culture plays an important role in the integration process, whether it is two different countries, or two different states, each has its own culture and must be
studied in advance, and treated with respect and understanding. After all, the culture has been successful in the past, otherwise the union would not be considered, and consequently, culture must be blended rather than changed. Remember, there are no "soft" issues in partnership formation.

5. **Communications.** Communicate early, often and honestly is essential to success. Be sure to budget adequate resources to communications about the partnership including devoting senior management time. When senior management is personally involved in the communication program confusion and low productivity are less likely to be residual effects of the partnership. There is no such thing as too much communication when developing and integrating new partnerships. Sending memos daily or weekly to employees is not adequate. Communications should be two-ways and conducted very openly and frequently.

6. **View employees as assets not liabilities.** A typical merger’s early objective is the reduction of employment costs. Quite often, it is done hastily and with minimum future manpower requirements projections. Careful attention should be made in this process, as the future costs of replacing the terminated employees may exceed the savings realized as a result of the lay-off. Also the damage to morale, absenteeism, and turnover and their concomitant effects on productivity should be considered.

7. **Employee involvement.** Mergers succeed or fail not because of existence or absence of synergies, but rather the level of commitments made by the employees. Employees should be brought into the process as early as possible. Through their participation, creative ideas will be generated helping the company to achieve its goals and objectives, and this will further employees’ dedication toward successful implementation of the corporate strategy.

8. **Timing.** Organizations generally are too optimistic about the amount of time and resources needed to integrate the two organizations. The rule of thumb is you should triple the expected amount of time and double the expected required resources need to accomplish the integration. If it takes less resources and time than both parties will be pleasantly surprised.

**References**


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