Daimler-Chrysler Merger: A Cultural Mismatch? : Introduction

In May, 1998, Daimler-Benz1 and Chrysler Corporation,2 two of the world's leading car manufacturers, agreed to combine their businesses in what they claimed to be a "merger of equals." The DaimlerChrysler (DCX) merger took approximately one year to finalize. The process began when Jurgen Schrempp3 and Robert Eaton4 met to discuss the possible merger on January 18, 1998. After receiving approval from a number of groups, (Refer Exhibit I), the merger was completed on November 12, 1998.

The merger resulted in a large automobile company, ranked third5 in the world in terms of revenues, market capitalization and earnings, and fifth6 in the number of units (passenger-cars and commercial vehicles combined) sold. DCX generated revenues of $155.3 billion and sold 4 million cars and trucks in 1998. Schrempp and Eaton jointly led the merged entity, as co-chairmen and co-CEOs. DCX sources were confident that the new company was well poised to exploit the growth opportunities offered by the global automotive market in terms of geographical and product segment coverage. (Refer Exhibit II for Daimler Benz and Chrysler's product ranges)

However, analysts felt that to make the merger a success, several important issues needed to be addressed. The most significant of these was organizational culture. German and American styles of management differed sharply. A cultural clash would be a major hurdle to the realization of the synergies identified before the merger. To minimize this clash of cultures, Schrempp decided to allow both groups to maintain their existing cultures.

The former Chrysler group was given autonomy to manufacture mass-market cars and trucks, while the Germans continued to build luxury Mercedes. However, analysts felt that this strategy wouldn't last long. When Chrysler performed badly in 2000,7 its American president, James P Holden, was replaced with Dieter Zetsche from Germany. Analysts felt that Zetsche would impose Daimler's culture on its American counterpart. A few senior Chrysler executives had already left and more German executives were joining Chrysler at senior positions.

In an interview to the Financial Times in early 1999, Schrempp admitted that the DCX deal was never really intended to be a merger of equals and claimed that Daimler-Benz had acquired Chrysler. Analysts felt that this statement probably wouldn't help the merger process.

Clash of Cultures

DCX's success depended on integrating two starkly different corporate cultures. "If they can't create a climate of learning from each other," warned Ulrich Steger, a management professor at IMD, the Lausanne business school, "they could be heading for an unbelievable catastrophe." Daimler-Benz was characterized by methodical decision-making while Chrysler encouraged creativity. Chrysler was the very symbol of American adaptability and resilience. Chrysler valued efficiency, empowerment, and fairly egalitarian relations among staff; whereas Daimler-Benz seemed to value respect for authority, bureaucratic precision, and centralized decision-making. These cultural differences soon became manifest in the daily activities of the company. For example, Chrysler executives quickly became frustrated with the attention Daimler-Benz executives gave to trivial matters, such as the shape of a pamphlet sent to employees. Daimler-Benz executives were equally perplexed when Eaton showed his emotions with tears in a speech to other executives. Chrysler was one of the leanest and nimblest car companies in the world; while Daimler-Benz had long represented the epitome of German industrial might (its Mercedes cars were arguably the best example of German quality and engineering).

Another key issue at DCX was the differences in pay structures between the two pre-merger entities. Germans disliked huge pay disparities and were unlikely to accept any steep revision of top management salaries. But American CEOs were rewarded handsomely: Eaton earned a total compensation of $10.9 million in 1997. Complications would arise if an American manager posted at Stuttgart8 ended up reporting to a German manager who was earning half his salary. Chrysler could cut pay only at the risk of losing its talented managers. Schrempp mooted the idea of overcoming the problem through a low basic salary and high performance-based bonus, unlike anything seen in Europe. Base pay would be lower than what Germans were used to, but the pay structure would have more variables such as stock options (an American feature).

Germans and Americans also had different working styles. The Germans were used to lengthy reports and extended discussions. On the other hand, the Americans performed little paperwork and liked to keep their meetings short. Americans favored fast-paced trial-and-error experimentation, whereas Germans drew up painstakingly detailed plans and implemented them precisely. In general, the Germans perceived the Americans as "chaotic" while the Americans felt that the Germans were stubborn "militarists."

Chrysler managers believed in spotting opportunities and going for them. However, post merger, they were trapped in the German style of planning, constantly being told what to do. Steve Harris, Chrysler's former communications chief (who defected to General Motors) commented, "The Germans played literally by the book—theirs. You'd go into a meeting and have to turn to Volume 7, Section 42, page 597." The Germans prided themselves on analytical research that produced a plan, while the Americans reached for the impossible and kept coming up with new ideas to achieve these "impossible" goals.

Before the merger, Daimler-Benz was known for its top-down management approach. Chrysler, by contrast, seemed to be a humble collection of colorful consensus managers. DCX claimed that the merger process would be complete in twelve months. However, analysts felt that the authoritarian German management methods would prove foreign to the non-hierarchical style at Chrysler making the integration of the two cultures difficult. From the start, the cultural differences made DCX's post-marriage period of adjustment difficult. No sooner was the merger announced, Schrempp started issuing reams of organizational flow charts to the employees. Every phase was given titles like "synergy tracking;" and every group had its weekly meeting schedule. DCX also set up a "post-merger integration" (PMI) structure in which 12 "issue-resolution teams" were assigned to push and cajole their counterparts into combining everything from supplies to research. Every time there was disagreement, the integration process for that group was halted until a solution was found.

Attempts to Bridge the Chasm

DCX took several initiatives to bring the two cultures closer. Press reports indicated that in Stuttgart, the more formal Germans were experimenting with casual dress. The Germans were also taking classes on cultural awareness. The Americans at DCX were encouraged to make more specific plans, while the Germans were urged to experiment more freely.

Analysts felt that there were many indications that the Americans and the Germans might come closer. The Americans were impressed by their German counterparts' skill with the English language (though they tried to cut down on slang to simplify speech when the Germans were in town). To reciprocate, many Americans were taking lessons in German. When the DCX stock began trading on November 17, 1998, German workers celebrated with American-style cheerleaders, a country-western band called The Hillbillies, doughnuts and corn on the cob. At a Detroit piano bar, the Americans were taken by surprise when they came to know that the Germans knew the lyrics of old rock-and-roll songs.

Daimler's Hegemony

In 2000, there was a management exodus at Chrysler headquarters in Detroit: two successive Chrysler presidents, James Holden (Holden) and Thomas Stallkamp (Stallkamp), both American, were fired. Holden was fired after only seven months in the position. Stallkamp replaced Holden and was forced to resign after only twelve months as CEO. Unreal as it might seem, two highly regarded Chrysler executives were fired from their CEO positions in the space of 19 months. Zatsche, the newly appointed CEO of Chrysler USA, was a Daimler executive and a close confidant of Schrempp. He, in turn, appointed Wolfgang Bernhard, another Daimler executive, as COO. Neither had any real exposure to the US marketplace. This turn of events demoralized Chrysler's workers. According to an employee, most of the workers were disgusted and frustrated because they felt they were being punished. The employees were expecting big layoffs, and were worried that the company would be sold out.

Analysts felt that after the merger Chrysler would no longer exist as an entity. In fact Chrysler was reduced to a mere operating division of DCX. The Daimler-Benz management presence permeated every important function at Chrysler USA. There was no Chrysler presence on the DCX supervisory board or the board of management. By the end of 2000, there were only 128,000 Chrysler employees still working in the US operations, all anxious and demoralized. Ex-Chrysler managers felt that Daimler-Benz was steadily leading Chrysler into a state of chaos.

Schrempp himself said that he never intended the merger be one of equals. He openly acknowledged that if Daimler-Benz's real intentions were publicly known before the merger, there would have been no deal. However, in a press interview, Schrempp largely retracted his statements by saying that if the strategy were to take over Chrysler, Daimler would never have included them in the name of the new corporate entity. Analysts felt that these contradictory statements had severely tarnished Schrempp's image, both in Germany and the US.

Given these chaotic circumstances, Chrysler reported a third quarter loss of $512 million for the period ending September 30, 2000; and its share value slipped below $40 from a high of $108 in January 1999.

DCX in Trouble

Analysts were of the opinion that DCX should eliminate between 20,000 and 40,000 jobs at its North American Chrysler division and permanently close at least one of its 13 plants in the US and Canada because of huge financial losses in 2000. After third quarter losses of more than half a billion dollars, and projections of even higher losses in the fourth quarter and into 2001, Schrempp told employees that Chrysler had only 13.5% of the US market, but it was staffed as if it had a 20% share.

In early 2001, DCX announced that it would slash 26,000 jobs at its ailing Chrysler division. "No one wants this to happen. I personally wish it didn't have to happen," said Zetsche. He called the moves painful but necessary in the face of "brutal" competition and low US sales. Zetsche said a large part of the job cutting would be through retirement programs, layoffs, attrition and other programs. About three-quarters of the job cuts would be made in 2001, he said. In addition, production would be curbed at factories in Canada and four states in the US by slowing assembly lines and trimming the number of shifts.

However, analysts interpreted this move as a failure of the German and American automakers to live up to their promise. One of them said, "Instead of making the billions of dollars in cost savings and synergies at the time of the merger, they're making desperate cuts to get Chrysler back in the black."

Why the Merger Failed to Realize the Synergies

Analysts felt that strategically, the merger made good business sense. But opposing cultures and management styles proved to be a hindrance to the realization of the synergies. Daimler-Benz attempted to run Chrysler USA operations in the same way as it would run its German operations. This approach was doomed to failure. In September, 2001, Business Week wrote, "The merger has so far fallen disastrously short of the goal. Distrust between Auburn Hills and Stuttgart has made cooperation on even the simplest of matters difficult. Coming to terms with issues like which parts Mercedes-Benz would share with Chrysler was almost impossible. The Germans and the Americans had been out of sync from the start. The two proud management teams resisted working together, were wary of change and weren't willing to compromise. Daimler-Chrysler have combined nothing beyond some administrative departments, such as finance and public relations."