

Daimler chrysler ag from merger to divorce management essay



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The history of Daimler AG is over 125 year before and now the product already over 200 countries in the world. Established in 1886 by Gottlieb Daimler and Carl Benz, the first automobile in the world was called Daimler-Motoren-Gesellschaft (DMG) (Daimler. com, 2011). Gottlieb Daimler (1834-1900) who worked in his garden and Carl Benz (1844-1929) together become the pioneers of automobile manufacture Daimler - Benz AG formed in 1926. (Daimler. com 2011)

1889 - Daimler developed engines with Wilhelm Maybach, in 1886 took the first step to mobile application by combining a gas or petroleum powered engine into a two-wheeler (Daimler. com, 2011).

1893 - Formed a company called ' The Daimler Motor Syndicate Ltd.'

1891 - Fredrick Simms Bought UK patent rights to Daimler's engine

After many successes by constructing a racing car, a new brand name Mercedes as formed in 1902 as the Emil Jellinek's daughter name. 1924 merged with Karl Benz's Benz & Cie to form Daimler-Benz to build cars under the name Mercedes -Benz (Daimler. com, 2011).

After the world war and developing of technology, in 1998 the merger with Chrysler Corporation to form DaimlerChrysler AG was announced. The purpose of the merger was to ensure the long-term competitiveness of both companies in the global market. However in 2007 base on the effectiveness of global economic crisis Daimler and Chrysler come to divorce (Daimler. com, 2011).

Background of Daimler AG and its environment:

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The Vision of Daimler “ is simple yet ambitious: to be the first-choice provider of financial services for our dealers and customers in close partnership with the automotive brands” (Daimler, 2011)

The mission “ is to achieve the best for our customers, dealers, vehicle brands, and parent company. A large scale and international scope are preconditions for attaining these goals” (Daimler, 2011)

Beside provide the best working environment for employees in order to support the creativities, company also takes responsibilities for the communities at place they live and work. The value of Daimler emphasis on engineering, design quality and after sales service (Daimler. com, 2011)

According to Daimler. com (2011) the divisions of Daimler AG included of five main business units Mercedes-Benz cars, Daimler trucks, Mercedes-Benz vans, Daimler buses, and Daimler financial services. As supports of Erich (2009) Daimler finance services illustrated as a large company size, which located in Stuttgart, Germany. With the turnover capability is 100bn€ and 270 000 employees. The main service/products offered are cars, VAN, truck and buses. Daimler’s product is at the high value product, technically advanced cars, focus on development of car engines. Daimler Company focuses on the up-market brand, high-end users and luxurious trait (media Daimler. com, 2010)

The environment base on the development of automotive industry and its internal environment. Following SWOT analysis the internal factor strength and weakness will illustrate the internal factors beside the opportunity and threat describe the external effectiveness the business of organization.
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Strength:

DaimlerChrysler from merge and become the third largest organization in automotive industry, with the strong brand name, variety products span all price range until the highest quality luxury product such as Mercedes and Maybach (David Highfill et al, 2004)

Weakness:

DaimlerChrysler is well known in US or Euro market but while form merge with the DaimlerChrysler brand automatically become the weak represented brand name in Asian market. Either Japanese and Chinese market, the high quality product Mercedes is famous but the target customer is limited and the hybrid strategy project which become the barrier of company and the trend of other DaimlerChrysler product is missing out (David et al, 2004)

Opportunity:

Following the innovative project producing hybrid car, which is acceptable in almost country, the friendly product will be launched soon. The trend of hydrogen powered vehicles market will create very good opportunities for government subsidies for continuing advancement of the technology (David et al, 2004)

Threat:

On the other hand by following the hybrid engines DaimlerChrysler will face with the very high opportunity cost of losing market share to rivals. In the short term DaimlerChrysler would not be able to profit from recent heavy

investment in technology (David et al, 2004). Moreover the competitive market is increase more and more challenged with the quickly development of Toyota, BMW, Volkswagens.

Central Issue:

Base on the specific organizational event. November 1998 Daimler-Benz AG of Germany and Chrysler corporates of United states decided to merge and form the Daimler Chrysler AG, then become the third largest car maker in the world. However after no longer in 2007 they decided to divide at the end Daimler sold Chrysler to Cerberus at \$7. 8billion (Daimler. com, 2011)

Figure 1: Chrysler's Car sales and employees 1998-2006.

Source: Dietmar Hawranek (2007) [online] Spiegel. de [accessed: 04-05-2011)

There are various problem issue but the central issue is lack of coordination, in ability to manage across culturally, both companies had different culture and value neither willing to change, the competitiveness global market especially in U. S with various competitor such as: Ford, Toyota, Volkswagen, Motor General. Moreover as the words of Dave (2009) “ There were many stories of disharmony, lack of trust and cultural clash between Stuttgart and Auburn Hills over the years. And the benefits that were supposed to flow from combined efforts and synergies appeared to be much less than hoped for.”

In order to analyses the central issue, the following some theoretical

frameworks will help to conduct critically analyses such as Hall's content <https://assignbuster.com/daimler-chrysler-ag-from-merger-to-divorce-management-essay/>

context culture, national and corporate culture, Hofstede's research of national culture, and Schein's theory of organizational culture to analyses the different culture issue problems of DaimlerChrysler. In addition the Leadership styles, Culture and structure, Maslow (1954) & Herzberg (1966) or High trust assumptions of McGregor's Theory Y, motivation will help to analyses the downturn of organizational structure of deal " an equal merger", and the decrease into bankruptcy of Chrysler.

Main body:

Cross-Cultural Management:

National and Corporate Culture:

According to The Economist (2000) DaimlerChrysler is the cross border business and two companies have different culture, some important or focus issue would be estimated less than the other would define, and could even scupper. Both company need long time to work and meet together to understand ad accept the other culture at the side of new approaches. At the same situation the typical American can take home two or three even four times of differentials in pay than their German equivalents. As the word of Evan et al, (2002) " the guiding principle behind the first wave of integration was to treat the two companies as equals, respecting differences in national and corporate cultures while taking full advantage of all opportunities for achieving synergy, under the banner of " one company, two cultures." As the result on May 7, 1998 Daimler-Benz AG and Chrysler decided to form " merge of equal", DaimlerChrysler AG the third largest automotive

manufacture in the world with global market over \$130billion in sales and more than 400 000 employees (Evan et al, 2002)

As stated by Helen (2008) the national culture and corporate culture could be the factors impact the operation of DaimlerChrysler AG. In the auto industry, Daimler-Benz was known as a conservative and rigid company regarding its corporate bureaucracy. In contrast to Chrysler as a typical American informal culture in business, outward oriented, less rigid in its operation and more risk-taking. In addition “ strong cultures can have a profound impact on a company, which can be either positive or negative for the organization”(Daft, 2007)

Figure 2: High and Low context culture. [Online] Source: berrypurechocolate.com [Accessed: 18/04/2011]

As state by Hall “ Culture communications are deeper and more complex than spoken or written message. The essence of effective cross-cultural communication has more to do with releasing the right responses than with sending the “ right” message.” As Helen Deresky (2008) “ Generally, American culture is not a touching culture, so when we are abroad we just have to watch closely and try to adapt.” As the framework of Hall’s theory of high - low context culture, Germany is the lowest position considered the business relationships are more compartmentalized and communication media have to be more explicit. The contribution of individual is more concentrated compare to other and the information is must be explicit. (Helen Deresky, 2008). “ The Germany-speaking countries are high in uncertainty avoidance, and the best explanation is a tradition of prolific,

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even if fragmented, top-down exercise of power that has built a mass of highly detailed behavioral standards” (Jack, 1998).

Hodstede’s research of national culture

As reported at Hodstede’s research of national culture, there are four Hofstede’s value dimensions: power distance, uncertainty avoidance, individualism, and masculinity. The different country with the different management function will affect the organization culture as the step of goal, transaction, and organization behavior. As the range of German in Hofstede’s dimension showed why Germans tend to behave rule and order in their live and work (Helen, 2008).

As the word of Hofstede et al (2010) the different national member will contribute its thinking and feeling to conduct the organizational culture, organizational culture will become the social system influence by decision and involved of every member in working hours. Following the Hofstede’s value dimensions, American company culture might apply the result of effectiveness of culture in different aspect of organization, leadership and motivation. The consequence base on the power will lead the motivators, and leader will be revered or obeyed as authorities (Susan et al, 2003). As noted by Mary Jo Hatch et al, (2006) “ Power distance refers to the extent to which the members of a culture are willing to accept an unequal distribution of power, wealth and prestige”. DaimlerChrysler is the multinational company, which was working with the different culture workers. As the individual working between the German and American culture the power

distance will define as the inequality within the population (Henry et al, 2006)

Moreover as the words of Henry et al (2006) “ the German as having the highest rate of personnel in productive role and the lowest both in leadership and staff roles.” In late 2000 in the situation of market had turned down, When Daimler take the decision to reduce the costs and capacity, in contrast Chrysler continue was burning money about \$5billion a year. That problem makes the distance of different cultural more and more bigger between both companies (Economist. com, 2009). The individualism dimension attended in the DaimlerChrysler corporate culture. The role of individual German people will have more effect than American, a high skill and responsible Germany worker will not need a manager. In contrast to the American style to motivate the worker as the member of group contribute the perception of management than a asset (Henry et al, 2006). As identified by Hofstede that in United States cultures the role of individualism is considered as the asset of well - being. While the culture of member is loosing the organization in United State will try to support their role inside the control system on acquisitions located in collectivist cultures (Mary Jo Hatch et at, 2006)

The last dimension that effect to the DaimlerChrysler is the uncertainty avoidance, the structure of organization impacts to the people from the high or low uncertainty avoidance country. The high score worker tend to be nervous energy, and the low score tend to easy-going (Henry et al, 2006). According to Hofstede et al (2010) “ uncertainty - avoiding societies have more formal laws and informal rules controlling the rights and duties of employer and employees”. Germans come from the fairly uncertainty
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avoiding culture so they believe that every problems can be solved without formal rules, the rules just need for the specific case and necessary. In contrast to U. S is the strong uncertainty-avoiding culture employees feel more constrained by existing rule and regulations.

Schein's model of organization culture"

In contrast to Hofstede, Schein try to analyses the role of national culture in the organization culture. Following analyses the Edgar Schein's model will help to understand how national culture contribute to company and effects on organization culture.

There are three dimensions of Schein's model such as basis assumptions, culture value, and artifacts. Accompany with the effectiveness of culture into member's choice and decision selection working inside the organization (Mary Jo Hatch et al, 2006). Firstly, the basis assumption explains the situation member working in foreign organization and there are two ways dominate or adapt the organizational culture. As the case of DaimlerChrysler the top manager form Germany would try on the native cultural assumption from host culture (Mary et al, 2006). Moreover the culture value is the next level of deep assumptions. As the word of Helen (2007) " Germans are conservative, valuing privacy, politeness, and formality" in contrast to American is quite flexible and informal in communication. Finally, following the analyses of Marry et al (2006) the artifacts explain that American member within group tend to keep silent and observe the norm and then adapt and accessed, because they underlying assumptions nurture and support these norms and values.

Organizational Culture - Structure

In Early 2005: DaimlerChrysler continues to face problem in its sales and management structure although Chrysler earns \$1.9 billion because of new models, leadership challenges are the main problem (Helen, 2008). Daimler and Chrysler form merger to joint together and create a new entity, however the Germany company intent to take over control using the structure and culture over the American company so this deal become more and more acquisition. That is one of the reason why the conflict between two chairman increase seriously (Evan et al, 2002)

As noted by Susan (2003) almost Germany firm worked as the specific function of organization via routines and procedures with the corporate achievement. The structure of German company is flatted and have the trend of broader will take the span of control. The final result of Daimler and Chrysler marriage is divorce and the most effectiveness factor is both company have not prepared enough research of culture. There is two different companies from different country with the culture, was working in one organization. The culture can't be dominated by one of two companies. The sale was decreasing dramatically, DaimlerChrysler had to face with the great loss of revenue. According to BBC news (2009) in term of downturn of economic and Chrysler's value was written down as zero in order to enter the bankrupt protection of government. DaimlerChrysler was decided to restructure the company, and the relationship between Daimler and Chrysler become the supplier-customer relationship. As Susan (2003) mentioned " The Germans argued that the major problem was a lack of structure, the

expertise, roles, and responsibilities of the two conflicting department head had never been clearly defined.”

On August 1, 2006. As stated by Renschler, CEO of Daimler mentioned that want to restructure the Truck Group in order to harmony synergy between profitability was increasing significantly and the truck brand. The potential future base on the excellent basis for continuing to deliver a strong performance and expand the market in more three region (Daimler media, 2006). As the word of Helen Deresky (2008) “ the effects of culture on specific management functions are particularly noticeable when we attempt to impose our own values and systems on another society”. The culture of each organization is illustrated by the way members communicate together, sharing value, and information system or the structure of firm process. The American people believe that people will be affected and controlled by their time schedule and working plan activities rather than other countries in the world. Normally the size of organization define how its work such as small size company will perform informal in contrast to big or large size company will perform informal and follow the information system of company structure. DaimlerChrysler is a large company but the American culture intent to work informal and appreciate the role of individual within the group (Clayton, 2005). Beside restructure the company the training activities also open to ensure the product sold in the region will receive the professionally serviced and repaired in long term. Finally DaimlerChrysler open the training central in Malawi (Daimler Media, 2007).

Management of specific organization event

The leadership styles within DaimlerChrysler are also one factor impact to the divorce of company. The managers in Daimler have the characteristic of Germany style and the American manager of Chrysler can't adapt. So the conflict is must.

A leadership style consistent with McGregor's (1960) Theory X is base on assumptions what workers require thorough supervision, explicit direction, and coercion and derive little satisfaction. However Adler (1991) suggests that a Theory Y style is well suited to the culture because workers share common interests among themselves and with management, value relationships, and prefer an egalitarian workplace. As DaimlerChrysler is the large power distance cultures organization would prefer the clarify expectations, and demonstrate strength and technical proficiency from the leader or the CEO of company. (Jack, 1998)

As Daft (2007) mentioned " an ideal structure encourages employees to provide horizontal information and coordination where and when it is needed". Its importance is articulated by comments made by Lee Iacocca when he took over Chrysler Corporation in 1980s " Everybody worked independent [...] Nobody at Chrysler seem to understand that interaction among the different functions in a company is absolutely critical" (Lee Iacocca, 1984). In order to analyses the reason of DaimlerChrysler fail from merger, there is one factor affect to the consequence is the leadership style of head manager inside the corporation. As the words of Ian Brooks (2009) there is a style continuum with the dimension of autocratic-democratic style.

Base on the wealth and competence about the context of themselves their
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subordinates the leaders will contribute the decision -making. There are four distinct styles joint, consults, sells, and tells which try to classify the style of each leader while they have to deal with solving problem. Henry et al (2006) comment that autocratic leadership styles can be accepted in CEOs, even though the United States is typical as an egalitarian culture, the CEOs can behave with different level of power with different manner. Especially as the words of Dean et al (2011) “ employees in individualistic societies such as American are more likely to be interested in pursuing personal accomplishment than employees in more collective societies, and less interested in esteem needs than employees in societies embracing “ feminine” value.”

The marriage between Daimler and Chrysler is not a suitable contract from the starting period because there is something cannot fit together. Zetsche was sent to Auburn Hills in fall of 2000 to restructure the US subsidiary. He decide to cut ten thousand jobs at Chrysler in order to reduce the cost and increase the productivity (Dietmar Hawranek, 2007). As Michelle Krebs (2007) stated the effectiveness of global economic crisis in over the world has changed the automobile industry dramatically in few years. The cost of health-care and material was increasing suddenly, some important suppliers went to bankruptcy, and financial problems impact the North American market to change their strategy. “ This time the high price of petrol and raw materials turned the market against the big sport-utility vehicles, minivans and saloons around which Chrysler had built its latest plans for recovery” (economist. com, 2007)

Suggested applicable solutions, changes or improvements:

As mentioned to experience of relationship between Daimler and Chrysler “the absolute need for speed, transparency and communication that all things made the merger failed” (The Economist. com, 2009). In order to manage the multinational company like Daimler the manager will play a very important role of successful. The lack of understanding culture will effect to the perspective of corporate partner. At the part of manager, manager’s awareness of cultural affects the communication process. The manager should take more interest in cultural background, person’s expectations (Helen Deresky, 2008)

Moreover the structure of organization should be concerned as the key important to harmony the role of CEO and manager from every department. DaimlerChrysler should specify the role of each lever management. With the hierarchical structure, if problem cannot be solved the upper level will be referred to solved, while the problem is solved the result will pass back down so the communication between all members in company will be more stable and closer (Daft, 2007). The reasons lack of understanding important role of corporate culture and experience in global market, competitors, and low consideration of opportunity cost in research of future engine technology explained why DaimlerChrysler was fail. In order to success in the future with the new technology ahead Daimler should put the culture research in ahead and identify the suitable strategy for both short term and long term operation.

Conclusion:

The company culture plays the very important role, it could be the reason to make or break the company. The organizational cultures always aligned with the common goals of organization and perform better than competitors.

Moreover organization culture changes and involves every time and influence with the company strategy. Moreover the top manager of organization should concern with leadership style factor in term of motivate and drive the company in the right way. For the better future with high technology developing very fast Daimler should consider all of the factors potential impact the company such as national and corporate culture, value of human resources, organization structure.

Reference:

Figure:

Figure 1: Chrysler's Car sales and employees 1998-2006 [online] available from: <http://www.spiegel.de/international/spiegel/0,1518,467117,00.html> [accessed: 04-05-2011]

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