

# The daimler bens and chrysler merger management essay



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Daimler-Benz was merged with Chrysler in May 1998. The CEO of Daimler-Benz, Jurgen Schrempp called this merger as “merger of equals” (Schein, 1996). The goal was to be in top three companies of automotive industry. Bringing together both the companies with different culture was not considered as a hurdle and there are no chances of cultural clashes but behind the curtains things were entirely different. There were many reasons for the troublesome merger but the most important was clash of co operate cultures. But because of merger there were drastic changes in the company as well and the major change was stock prices were quadrupled and the company had a paradigm shift from bankruptcy to profit making.

Lee Iacocca showed a great transformational leadership and implemented change management in company that was very helpful in getting financial stability and expanding the marketing space. He adopted the four enablers which were platform teams, a new center, a new culture, CAD for the organization. The merger changed the co operate culture of the company now the company is thought to have better positioned. It entered the growing competeion in small truck market. (Anon., 1997).

“The only certainty in our modern world is change. The ability to survive and flourish depends on our flexibility and the willingness to constantly adapt to a changing world” by Arthur.

## Introduction

Change management varies widely from organization to organization including various environments but among all most relevant is organizational change management. It is a process of change in an organization in a

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systematic manner. Change management can be reactive. Most common places for change management implementation are technology management, strategic and process. However overcoming resistance to change is the core value while implementing new procedures. Lee Iacocca, former CEO of the Chrysler Corporation showed transformational leadership he brought the company from bankruptcy to profitability.

### About the company

Daimler AG is the most successful German automotive manufacturing company founded in 1883. Initially it was named as Daimler Motoren Gesellschaft. The Daimler group is world's biggest manufacturer of premium cars.

In 1998 Daimler merged with Chrysler Corporation and got a new name DaimlerChrysler AG. In 2007 Cerberus Capital Management acquired Chrysler Corporation as Chrysler was lacking the liquidity needed by the financial markets and again company was renamed as Daimler AG (Thornton & Meyer-Larsen, 2000).

Gottlieb Daimler and Carl Benz were the company's founder and automotive pioneer who introduced high quality products and safe mobility. Daimler is a company whose commitment is towards excellence and increased profitability. The investors of Daimler are majorly European, US and other investors internationally. The company has turnover of approx EUR 99.4 billion (IFRS, 2008). It has manufacturing units in 17 countries.

Chrysler Group LLC is a automobile manufacturing industry was founded in 1925 by Walter Chrysler. It is world's thirteen largest vehicle manufacturer(OICA, 2008). Chrysler Group was stuck in unstable financial state and was declared bankrupt. after that attempts were done to take control of company by the largest shareholder Kirk Kirkorian in collaboration with Lee Iacocca. The headquarters of Chrysler group is in Detroit, Michigan (Turnock & Cobbs, 2003).

Major market area of Chrysler was US. There was a need to expand the market space to earn global revenue and increase profit but that required greater investment and the company was in lack of funds this created a rise of merging the company with some strong stable company to increase the market space as passenger cars were sold widely out of US but the company had no plants abroad. So it choosed Daimler AG as a potential company to merge with because of its wide access to international market and financial stability. (Geisst, 2004).

### Transformational leadership

Lee Iacocca is a designated leader whose leadership drastically turned around Chrysler organizational culture. Leadership is forged in time of crisis. Leadership qualities of Lee Iacocca include the following 9 C's which helped him to bring the cultural change in Chrysler group.

1. CURIOSITY- Lee Iacocca always put his belief to test and get idea from people he was voracious reader as he wanted to keep himself aware about the global changes.

2. CREATIVE- lee iacocca was always willing to try some innovative ideas. He believed in thinking out of the box. He was able to manage change in the company.

3. COMMUNICATE- he was able to face the reality of bankruptcy of the company and tell stakeholders the truth about the merger. He could disseminate information properly.

4. CHARACTER- lee iacocca was a person of character he knew the difference between right and wrong. He had all the powers still he had the guts to do the right thing.

5. COURAGE- the best leadership quality of lee iacocca is the courage and ability to do commitment and do negotiation by sitting and talking.

6. CONVITION- he was a very passionate leader. His passion was the success of company and increased capital for which he had fire in the belly

7. CHARISMA- lee iacocca had certain qualities which made people follow him. He was able to inspire the employee during crisis and everyone trusted him.

8. COMPETENT-he being a leader exactly knew what he was doing for the betterment of company moreover he always took suggestion from people.

9. COMMON SENSE-It is the most obvious character of a leader as he should be able to know certain logical things in order to bring change.

## CHANGE MANAGEMENT

Change management is a sequential way of transiting organizations from its recent state to desired future state. Changes are applied to any system according to predefined model or framework. The main objective of change management is to maximize profit and minimize risk involved during implementation. Various types of changes are [appendix 1]

Structural change

Strategy change

Technological change

Cultural change

More over there are many models for change management that are very useful for organizational development and prosperity. They are as follows [appendix 2]

Adkar model.

Formula for change.

PCI (people centered implementation).

John P Kotter's " eight steps to successful change"

## **Merger and acquisitions**

Mergers and acquisitions is a business venture where two or more companies join together their resources and increase capital to create a

new company with entire enhanced operational capacity. Company can change there name and structure as well(Gaughan, 1999).

An acquisition is a business tactic to buy and absorb one company by another . a proper strategy should be planned so conflict can be avoided and corporate culture of company is maintained (Ireland, Harrison & Hitt, 2001).

When two companies with different culture, values and working methodologies integrate into one single unit to acquire expertise and increase synergies and profit revenues. According to a survey 55% to 70% of M & A fails(Carleton cited in Schraeder and Self, 2003). mergers should be taken as in benefit of both external or internal environment of the company. most important during merging is to communicate in order to learn the cultural differences of both the companies. Relations before and after merging should be properly maintained and conflicts should be avoided(Herndon & Galpin, 2000).

To ensure a smooth transition during merger/acquisition process stability should be achieved by formulating strategies. Change management here focuses on minimizing employee attrition and to boost them for better work.

Communication is most important to ensure stakeholders agreement and understanding. There are four phases of communication under change management(Mueller, 2003).

Announcing the merger

All stakeholders should know about merger by the company only not by the media. It makes them feel a part of company and they think for betterment. (Scherer & Ravenscraft, 1987).

#### Approval by authority

All stakeholders should provided information about impact of merger and the reasons for merger there should be no conflict. Transparency and honesty are of great importance(Mueller, 2003).

#### Closing the deal

Don't exaggerate the situation try to decrease the fear of reducing jobs during merging. Prepare employees mentally and emotionally by providing factual information. (Ireland, Harrison & Hitt, 2001).

#### Changes completed

All stakeholders must know about the achieved promises to maintain a good image.

It is evaluated to know the success ratio so it can be implemented in future(Scherer & Ravenscraft, 1987).

### **Reasons for merger**

The merger between Daimler and Chrysler happened on May, 7th 1998 both the companies wished to make a multi billion company to dominate car market so they got merged(Gaughan, 1999). The main reason was to increase product range and expand global market. Both companies had



diverse methodology of work so merger was considered a better option.  
(Fairfield-Sonn, 2001).

The reasons for merger are:

Market share of company fell from 16. 2% to 12. 2%.(IM survey, 2007)

Company went bankrupt because a group of bondholders rejected the company's

Two third of senior manager resigned because of financial instability.

Chrysler's profit decreased 90%.

Chrysler ranked on seventh among seven automakers.

Not invented here syndrome kept Chrysler from sharing ideas.

## **Strength and weakness before merger**

Daimler

Chrysler

Strength

Technological engineering

Quality strength

Premium luxury brand with rich heritage

German efficiency

Strength

Flexibility

Creativity

Self responsibility

Concept cars

Market opportunity

Low production cost

Weakness

Hardly flexible

Low potential

High cost

Lack of production ability

Weakness

Less discipline

No investment in R & D

Loss of key players

Not able to compete global market.

Difference between American and german business culture

American and german have different style of work

Concept

american

german

Practical experiences

Training on job concept followed

Focus on education and qualification

Pragmatism

More goal oriented than germans

Focuses on deeper knowledge

Flexibility

Career flexibility much bigger in america

Job security more important

Informality

Friendly impression by use of first names etc

Less common in german as they believe in personality

Job security

Employees can be laid off very easily

Judges on basis of individual performance

## **Cultural change**

Merger should be where culture of both companies are almost similar and had employee support as well (Chatterjee, Lubatkin, Schweiger, and Weber 320). For any organization culture is a vital element to decide how things are done and the manner new products are marketed and lot more things. (Weber and Camerer 401).

Christine grosse carried a cultural knowledge survey and found 80% people were benefitted by imparting knowledge of local culture(Grosse 366).

Diamler Benz was a rigid company with bureaucratic corporate culture with quality standards. Culture was too authoritarian.

Chrysler was having a informal culture outward oriented and less rigid.

Since Diamler and Chrysler was now a transnational company dealing with two cultures was a difficult task to manage

Organizational culture in recent trend in focused on external environment and more open focus oriented and risk tolerance is high. Employees are trained to go that extra mile for the company

## **New culture**

After change implementation there were five enablers that formed the basis of Chrysler new culture these are

Better communication

Continuous training

Better human resource system

Accurate practices.

Improved process.

in the new culture teams were formed at general level. In 1994 chrysler introduced new 360 degree type process in which everyone including peers rate you. The new culture gave the staff a feeling of ownership in the company and gave them a dynamic environment. For transformation several strategic plans were implemented. In the new culture young innovative youth was the captain and new skilled designers

## **RESISTANCE TO CHANGE**

Resistance to change is one of the basic reason for the failure of change process and its implementation. Resistance to change in general is ubiquitous by nature. It is defined as a natural response to any reaction or threat of change(Block, 1989). There are number of factors that cause resistance including individual, factor group factor and organizational factors.

In Chrysler group the resistance was basically seen in 3 areas:

Technical systems resistance- Chrysler resistance in technical field included fear of change, loss of sunk costs and work oriented approach.

Political systems resistance- it comes from internal coalitions against change. Chrysler group had limited resources and it admitted change was essential.

Cultural systems resistance- Chrysler group was having a perceived vision that the whole merged company is a single unit so current culture should not be sophisticated to accept cultural changes in the company.

Factors causing resistance to change

Cause

Outline

Fear of the unknown

Being uncertain about the nature of a change, Chrysler group was uncertain about the future and on going impact of change.

Loss of control

The organization felt that changes are done to them but they are not able to take part in change.

Loss of face

Chrysler group felt very embarrassed because of change and it thought that work done by company in past was not futile. The company repo changed.

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Loss of competency

The existing skills of the company after merger did not get changed.

Need for security

Company worried for its new role after merging

Poor timing

It was asked to

change at a time when they already feel overworked

Force of habit

Not liking to change existing ways of doing things, feeling comfortable in existing

routines and habits

Lack of support

Lacking important support from direct supervisors, not having correct resources to properly implement change.

For treating resistance as positive utility Chrysler group tried to be proactive but there was absence of appropriate change theories that incorporated this feature. So manager of the company engaged other people to identify the resistance, to test and to implement successful change. (Dettmer, 1998a; Houle and Burton-Houle, 1998).

## Conclusion

For overall activities of organization culture of an organization is very important and should be taken into consideration (Sicilia & Lipartito, 2004). Conflicts should be avoided and activities affecting culture should be strategically arranged. Business acquisition and merger should be planned strategically as they are very important part of organization change. communication is the most vital element of organization. To ensure stakeholder participation there should be proper communication channels.

Both the companies had different culture that was one of the reason that merger couldn't be that effective.

There was definitely a need for change management at Daimler but merging with Chrysler was not only the best solution there were other alternatives:

Strategic alliances- it will increase global market but won be helpful for the development of R & D Ddepartment.

Outsourcing- I can improve the quality and innovation and reuce cost.

Chrysler could have concentrated on core competencies and outsource non core values. Example development of vehicle platforms could be outsourced to Chrysler by diamler.