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Construire le schéma d'analyse du GERPISA

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MERGERS, ALLIANCES AND ACQUISITIONS: THE "SMART" WAY OF INTERNATIONALIZATION? CONTRASTIVE ANALYSIS OF THE VOLKSWAGEN / SKODA AND DAIMLER BENZ / CHRYSLER MERGER

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Obviously, the forming of mergers, acquisitions and alliances represented a major business fashion (not only) of the automobile industry – comparable to former strategic orientations, like e.g. diversification ("Technologiekonzern") in the early 1980s and concentration on core competencies in the late 1980s. Putting aside that this strategy was and is not the only choice for automotive companies to improve their position on the automobile markets (e.g. internal expansion, revival of old brands) it is also obvious, that opportunity (the willingness of a potential partner) and a certain position of power is necessary to adopt such a strategy of internationalization: the German automotive companies that we are dealing with here (DaimlerChrysler and Skoda) were in the position of being actors rather than reactors. Besides the fact of being a mass phenomenon and below the similarities of (possible) motives for waves of mergers, acquisitions and alliances during the 1990s all examples faced different constellations and challenges during the phase(s) of "post merger integration". In this article we will compare the merger of Mercedes Benz with the Chrysler Group and the merger of Volkswagen with _koda by (1) briefly outlining the history of both cases, (2) trying to find differences and similarities and (3) drawing conclusions from both cases for further research.

THE MERGER OF VOLKSWAGEN AND _KODA

Historical setting and anticipated pay-off-effects and context of the Joint Venture

Impact of Volkswagen

Volkswagen has considerable experience both in internationalization of business and production activities which started in Brazil in the 1950s (see Kasiske 1982 for the wide range of motives for internationalization) and with mergers and the integration of smaller companies into the corporation (Auto-Union / NSU, SEAT). After the fall of the "Iron curtain" Volkswagen launched a series of activities to get access to the Post-Socialistic markets and build up production sites in these countries (Lewandoski/Zellner 1997). One of these activities concerned a Joint Venture with the Czechoslovak car producer Skoda. The Volkswagen management focused on the possibility to get access to the Central and Eastern Europe automobile markets. But they also laid emphasis on using Skoda as the fourth brand of the Volkswagen Group and thus further extending the product range in order to broaden sales activities on Western automobile markets, too. The transformation of Skoda was not only meant to 'upgrade' a post-socialist company but was also oriented towards a fast interconnection and integration of both Skoda and its suppliers into the production network of the Volkswagen Group. The aims and methods of connecting the business activities of VW and _koda mainly consisted of the following 'tools':

- ✓ Restructuring of and investments in the technical facilities and production methods. The technical concept consisted of a four-step-program in order to essentially improve quality and productivity.
- ✓ The plans for the production program of the following years consisted of a derivate of the Skoda Favorit (introduced to markets in 1988) using Volkswagen know-how and parts and starting to develop a completely new model from 1994 onward.
- ✓ Constructing a new engine and engine production site and integrating it into the "aggregate"-production network (the engine of the Favorit was an upgrade of a development from the 1960s), i.e. producing not only for Skoda but also for the Volkswagen Group.
- ✓ Organizational restructuring along corporate lines especially in the strongly market oriented areas of controlling, purchase, quality (Skoda had only little experience in defining requirements and setting standards for its suppliers in terms of quality or timeliness because of top down organization of supplier relations by various government departments), marketing and sales (up to 1990 no marketing department existed at Skoda. Two specialized trading organizations handled marketing and sales: Motokov for export and Mototechnik for the home market. Marketing activities were only conducted in and for Western markets. In Czechoslovakia and other Central and Eastern Europe Markets demand exceeded supply and thus no need for marketing activities existed.).
- ✓ Using and improving regional R&D competences should lead to synergetic effects.

Volkswagen therefore announced a reorganizational approach for Skoda, which consisted of global strategic principles and measures as well as locally de-centralized responsibilities and adaptability with a strong emphasis on the acknowledgment of the regional cultural and technical competences of the Skoda employees and management (envisioning a polycentric corporate culture; Novák 2000).

Impact of Skoda

The management of the then state owned Skoda company took an active part in this process, too, even before the Ministry of Metallurgy, Machinery and Electrotechnical Industriy of Czechoslovakia started to look for proposals for foreign investment or partners for a Joint Venture with Skoda. This means that Volkswagen was clearly 'wanted and chosen' as a partner for the reorientation and reorganization of Skoda. The major steps of the "up-to-date-management" (Kozminski 1995) were:

Accepting and promoting the transformation process of the Czech economy as individual and collective chance, expressed in the adaptation of the neo-liberal market semantics, using own experience with Western auto-markets and knowledge providers, e.g. Price Waterhouse, in order to build a 'survival strategy' for the anticipated global market competition (doubling of production, internationalization of sales activities), there was no doubt that Skoda would need a strategic partner. After almost a year of negotiations with different companies it became clear that the only realistic choice of a potential partner was between Volkswagen and Renault. In these negotiations the Skoda management attributed primary importance to the following four factors:

- the maintenance of the Skoda brand-name;
- the maintenance of the employment rate;
- Czech participation in management and
- preventing the reduction of Skoda to an extended workbench (which basically meant keeping local capacities in R&D).

Although in many circles – and in public – strong sentiments favoring cooperation with a French car company existed, positive negotiation experiences, support from the labor unions and the willingness of Volkswagen to accept all the four above mentioned conditions assured that the preference for Volkswagen dominated. In December 1990 the Czechoslovak government announced its decision for Volkswagen and in April 1991 the joint venture began. Volkswagen then officially took over the leadership in the transformation process.

'Biography': The dynamics of merging autonomous companies

We are going to focus on the activities and developments at Skoda, without a closer look at minor and major frictions in the process, sometimes caused by unfamiliarity with the Czech 'environment' or by certain management strategies, e.g. the failed recruitment strategy for the production of the new model Octavia at Mladá Boleslav, trying only to hire young skilled workers without influences of the old Socialist past or the artificial implementation of a Skoda Philosophy which was perceived as an ideologizing attempt on the background of the named past.

In terms of economic figures, product and production improvements and sales activities the joint efforts at Skoda turned out to be successful.

The moderate increase of employment figures is accompanied by an enormous rise of production figures from 1991 to 2002 and indicates the achievements in productivity in this period. From 1996 onwards Skoda has had a positive annual balance.

Realization of Projected Goals

Skoda drastically changed its economic appearance within the last decade. The developments and dynamics that occurred in this course can roughly and in comparison to the above-mentioned goals of the Venture be summarized as follows:

Pushed by Volkswagen's financial, managerial and technological support both the production facilities and the product range reached the technological standards of the global automobile industry and were integrated into the Volkswagen production network, especially its '*Plattform*'system. The first joint developed car was the Skoda Felicia which entered automobile markets in 1994 and was produced until 2001. Nevertheless, the Felicia which replaced the Favorit (introduced in 1988) was mainly an upgraded version of its predecessor. Only the next model, the Octavia (planning started in 1994, introduction was in fall 1996), was the first Skoda car to be an ‘all-new’-model in terms of design and development and to be built on a Volkswagen-‘*Plattform’* (Golf A4) in a newly opened assembly facility located at the main plant in Mladá Boleslav. By implementing the ‘*Plattform’*-Strategy, nowadays called ”Group Strategy”, both economies of scope and scale could be realized. Three years later, in September 1999, Skoda not only launched a new model in the small cars’ segment, the Fabia, but also introduced the a new ‘*Plattform’* to the Volkswagen Group. The latest model, introduced in 2002, was the limousine Superb.

The design of the latter three products shows a strong affinity to the other cars of the Volkswagen Group and they continually reached high results in the Group wide quality benchmark rankings.

Furthermore the internationalization of Sales took place as expected. In 1991 Skoda sold 70% of its products on the home market, in 1999 this number dropped to 20%, widening the range of export markets from 30 to 64.

As projected an engine production site was built and integrated into the ”Aggregate”-network and the supplier integration took place, too, motivating many Joint Ventures of Czech and German/Volkswagen suppliers (61 out of 186 in 1995, more than 100 up to 2000; see: Nová_ek/Smutn_ 1996).

The “complete integration” and “networked”-approach of the Volkswagen Group is to be strengthened in the further path of development, e.g. with respect to net based purchasing activities, sharing of electric and electronic components and systems and programs of communication within and between the brands.

Most of the 1989-91 set goals were met successfully. But the question remains how this was handled concerning governance structure and culture. It is important to reconsider that the cooperation between Skoda and Volkswagen was essentially asymmetrical. The flow of capital, personnel, know-how and management concepts all went in the direction from Volkswagen to Skoda. The involved ”soft-factor-problems” can be characterized as follows:

- ✓ acceptance of asymmetry, to enable the flow of know how and reorganization tools
- ✓ motivation on the Czech side to participate in reorganization
- ✓ summarizing 1. and 2., a certain form of culture to allow for both commitment and adaptability to the new circumstances.

Governance and culture

The organization of the transformation process with its global strategy – local adaptation approach (which also includes using local advantages such as low wages and suppliers on the company ground etc.) could rely on various factors:

- ✓ As already mentioned many employees at _koda took the transformation process not only as a risk but also and many as a chance, i.e. the opening of new possibilities for action both for the individual and for the company and took an active part in the choice of the partner
- ✓ The resources of _koda in material, structural and cognitive terms, e.g. the regional industrial culture, the tradition of the brand name, the monopoly on the Czech market etc.
- ✓ The outcome of negotiations: certain fields of management, especially human resources to remain in the hands of Czech senior management, two official business languages: German and Czech.

- ✓ Know-how transfer techniques: strategic positions to be controlled by Volkswagen specialists in order to control and improve the transformation process and the communication with Volkswagen; the establishing of "*Tandems*" for a limited time span (one German and one Czech partner on a single management position) which allowed for direct interaction during the know-how-transfer phase; emergency project management ("Flächenbrände"), assessments, trainings, selection (see Gutmann 1996; Koniek/Groenewald 1996 for details)
- ✓ In the course of interaction new "resources" evolved, especially changes and improvements in the visual appearance of the company, e.g. the new cleanliness of the production site, new technical products (cellular phones, computers), new production facilities and products, the meeting of world market standards in terms of technology and quality and last but not least the increasing economic success (especially the improvement of technological standards was seen in the light of the lack of available technology in the Socialist past).

In the course of this developments the intervention of Volkswagen – the asymmetric partnership – at Skoda was more and more seen not so much as "*Bevormundung*" (paternalism) but as *"Unterstützung"* (support). The type of governance culture which evolved in the course of the dynamics of the cooperation and which was able to overcome sentiments and solve the problem of inclusion of Czech management and workforce into the process of reorganization can be described as follows (for details see Jung et al 2003):

Firstly, the Skoda culture seems to be strong and adaptive in the course of time, i.e. the possibility to integrate external inputs from Volkswagen without – metaphorically speaking –changing its face.

Secondly, the Skoda culture is socially open, which means it allows for different persons with different identities to find a common ground for cooperation. In other words the identities of neither the older nor the younger employees were rejected. That doesn't mean that there weren't severe individual adaptation problems especially in the case of the older _koda employees.

Thirdly, the Skoda culture consists of a strong identification with the product and the brand and the common goal of a high quality standard of the products (one must see that quality had only played a minor role in the socialistic markets and therefore stands both for the market and customer orientation and being at the same time compatible with the long tradition of automobile manufacturing and industrial culture of the region in which the Skoda employees take pride in.)

To sum things up: besides the successful integration of _koda into the Volkswagen Group the necessary inclusion of the Skoda management and employees into the Joint Venture and literally speaking into the Volkswagen "family" took place, too. This is expressed in the perception of Skoda changing from the "daughter" of Volkswagen to an equal partner alongside with Seat and Audi.

The evolution of this corporate culture strongly stressing market semantics, product quality orientation and regional engineering culture may well be the 'outcome' of a rather emergent process. Nevertheless, the specific management style and concept of leaving space to local adaptation seems to be a successful way of integration and inclusion because it allows for possibilities of such emergent processes.

Even severe crisis experiences like for example the reduction of direct investment at Skoda (from 8,2 to 3,7 Bill. DM) in which nationalistic sentiments evolved could be treated accordingly in this context. Retrospectively it was seen as a learning process and ”arriving in reality” by the Czech management (Nováek/Zoepf 1996).

Conclusion and Current Development

Some recent economic developments seem to indicate severe challanges to the governance culture of the Skoda and Volkswagen venture. Some are: exchange rate (strong Czech crown); “cannibalization” of products (especially Fabia and Polo) on the same (Western!) markets; new Group structure (on the one hand Volkswagen and Skoda and on the other hand Audi and Seat); sales problems of the Group, strong competitors; and delays in market introduction of new models. The reaction of the headquarter management seems to aim at centralization and cutting off local autonomy. Small brands are now seen and labeled as regional “Hilfsmarken” for the two global brands Volkswagen and Audi. In terms of the GERPISA-Network the distinct problems of the flexible mass production, namely the cannibalization of products, is to be resolved not by abandoning it but by an attempt of hierarchization of the brands – even in quality terms (Skoda development in direction of cheap and spacey cars) – and a new regional distribution of sales activities (limiting _koda mainly to the sales markets of Central and Eastern Europe) which might well collide with the up to now practiced mode of sensitive corporate governance – as might the projected reduction of the R&D department at Skoda to a ”workbench”.

The developments might cut into the “symbols” of the _koda culture: precisely those fields of a strong brand identity, quality and growth in terms of sales, internationalization and product range as well as success are now jeopardized by the centralized management strategy. These elements both represent the success of the cooperation and provided a common ground (or target) for the venture. An intervention, which puts these elements under contingency will most probably, inflict the up to now balanced relationship in terms of corporate governance, too.

THE DAIMLER BENZ AND CHRYSLER CORP. MERGER

Situation before the merger

Before the merger of Daimler Benz and the Chrysler Group both companies went through times of crisis at the beginning of the 1990s and recovered at the end of the 1990s to hold strong positions on their home markets.

1992 and 1993, about two years later than the global automotive industry, the German industry was hit by the effects of a global economic crisis. In particular Mercedes Benz suffered from declining sales in traditional European markets and its traditional export markets (sales in 1990: 575.558, 1992: 514.944; see Geschäftsbericht 1996). In addition, the company could only offer an aging product range, suffered from low productivity as well as the failure of its “integrated technology group strategy”. The image of being a producer of luxury vehicles made it difficult to expand the product range into the medium-sized and small cars segment. Furthermore, Mercedes Benz was a company that traditionally relied on exports to satisfy demand on markets outside of Germany and only had some small assembly plants in minor markets (e.g. Austria, South Africa, Indonesia).

After Jürgen E. Schrempp became the CEO of Mercedes Benz he immediately implemented a new strategic concept to help Mercedes out of the crisis and become a leading global player in the near future. Five strategic cornerstones should help the company (see: Eckardt et al. 2000: 61f.): (1) “stop the bleeding”, i.e. reducing all company activities to the core competences with high added value; (2) strong shareholder-value orientation in combination with changing the general reporting to US-GAAP standards and introducing ROCE (Return On Capital Employed) for all divisions and cost centers of 12%; (3) strategic reorganization with standard management principles and indicators, low hierarchies and project organization; (4) new management culture and (5) globalization of the core competences by FDI, strategic alliances and mergers & acquisitions.

For the automobile activities of Mercedes Benz this meant a change to become a full-sortiment producer. In particular Mercedes tried to enter volume market segments, like the small-car segment with its new A-Class and the smart as well as niche markets, like the segment for convertibles with its new SLK and the segment of Sport Utility Vehicles with its new M-Class. In combination with the presentation of new models and face-lifts of older models Mercedes also added new production facilities overseas. A new plant for the production of the M-Class was built in Tuscaloosa, AL (USA) to reconquer the North-American market and another plant for the production of the A-Class was built in Juiz de Fora (BRA) to strengthen the position of Mercedes on the Latin-American market. Furthermore, Mercedes put up several CKD assembly plants in emerging markets, especially in Asia (Vietnam, Indonesia) and established joint ventures with partners in Asia (with Daewoo, Korea; Nissan, Japan; Celco, India).

In order to become more profitable, Mercedes announced yet two other initiatives in its annual report 1995: a learning and productivity offensive. The new production sites in the USA and Brazil were not only steps to reenter their respective markets but also laboratories for new production processes and organizational structures. By the end of 1997 Mercedes had regained its strength and position on the international markets and was again a major player in the world auto industry.

Chrysler experienced during the end of 1980s and the beginning of the 1990s a similar development. For Chrysler and its brands Dodge, Chrysler and Jeep (the brands Eagle and Plymouth belonged to Chrysler but were discontinued by Chrysler) the USA was and is the dominant market but the company also had some production sites overseas. The product range reaches from small cars to pick up trucks but the major source of revenue in 1998 were mini vans and trucks.

At the beginning of the 1980s the new CEO Lee Iacocca saved the company from bankruptcy with the help of government loans. He helped the company out of the crisis by reducing costs and changing the product range from road cruisers to small cars. But at the beginning of the 1990s Chrysler experienced another crisis due to rising costs and quality problems. Furthermore, the entry into the luxury vehicle market failed. In 1992 Robert J. Eaton became CEO of Chrysler and started to reduce costs and raising profitability again. By 1994 Chrysler had recovered from the crisis (Bécir 1995), which became obvious at the 1995 Detroit auto show, where Chrysler presented its restyled vans, a newly designed automatic transmission and furthermore, publicly thought about producing a small car for the Asian markets. But still, Chrysler lacked a more international structure of sales and production.

In 1997 (Bécir 1998) Chrysler was still able to produce positive results despite an intensifying competition on the US-American market and growing competition from the Japanese manufacturers. In particular the segment of light commercial vehicles contributed to the positive results of Chrysler. Moreover, Chrysler started an intensive investment program in 1997 by investing US$ 1,3 bill. during the next five years in its six factories in Detroit. At this point Chrysler was well positioned for the segments with high profit margins, i.e. vans and pick-up trucks. However, predictions for the future of these segments looked bleak because the segment was said to remain static or to shrink. At the same time Chrysler intensified its efforts to become more international: it opened a new pick-up plant and a motor factory with BMW in Brazil; started a joint venture with Beijing Jeep in China and expanded its activities in Mexico as an export base for European and Central- and Latin-American Markets.

To summarize, both companies found themselves in comparable positions by the end of 1997. They were major players on their home markets, had secured a position in niche markets resp. market segments, tried to expand their product range and tried to internationalize not only in terms of exportation.

History of the Merger and Major Goals

On May 6, 1998 the CEO of Daimler Benz, Jürgen E: Schrempp and the CEO of the Chrysler Corporation, Robert J. Eaton, signed an agreement to pursue further negotiations about a possible merger of the two companies (see Köhler 1999). During the course of the year 1998 expectations on the possible advantages of this merger were high. The second largest German automobile company (after Volkswagen at this time) was about to merge with the third largest US-American car manufacturer to become the fifth largest car company (after GM, FORD, Toyota and Volkswagen) worldwide.

The merger came to a surprise for everybody. In its quarterly statement from April 1998 (DB Konzern-Zwischenbericht 01.01. bis 31.03.1998) the company did not mention a possible merger. However, the Daimler-Benz-Group looked back on very successful first three months of the year: turnover was raised in all areas of the group (passenger cars, commercial vehicles, aerospace, services, directly managed industrial investments) as well as the number of employees (see table 1).

Table 1.- *Turnover and Employees of the Daimler Benz Group 1. Quarter 1997 and 1998†, Jan-June 1997 and 1998‡, Jan-Sept. 1997 and 1998–*

in Mio DM	**01-03 / 1997**	**01-03 / 1998**	**01-06 / 1997**	**01-06 / 1998**	**01-09 / 1997**	**01-09 / 1998**
DB Group						
Turnover	25.906	31.578	55.892	67.714	87.637	102.897
Employees	287.636	295.127	291.025	303.347	300.057	310.984
Pass. Cars						
Turnover	11.426	14.000	24.980	30.648	38.315	46.200
Employees	85.492	91.942	88.049	94.388	91.901	96.502
Com. Veh.						
Turnover	8.157	9.841	17.846	21.685	27.574	33.158
Employees	80.732	84.937	81.064	87.869	83.202	90.028
Aerospace						
Turnover	2.827	3.309	6.679	7.558	10.255	11.778
Employees	44.076	43.640	43.691	45.190	44.139	46.287
Services						
Turnover	3.305	3.946	7.166	8.718	11.213	13.347
Employees	12.111	15.693	12.952	16.756	13.936	17.928
Industr. Inv.						
Turnover	1.158	1.546	2.480	2.956	3.959	4.522
Employees	19.912	22.577	20.130	22.346	21.216	22.592

Source: † *DB Konzern-Zwischenbericht 01.01. bis 31.03.1998,* ‡ *DB Konzern-Zwischenbericht 1. Januar bis 30. Juni 1998, – DB Konzern-Zwischenbericht 1. Januar bis 30. Sept. 1998 (first time report according to US accounting standards; not directly comparable to other reports.).*

In July 1998 the company reported to its shareholders (DB Konzern-Zwischenbericht 1. Januar bis 30. Juni 1998) about the intentions of the merger with Chrysler which were rather unspecific at this point: goal of the deal was to reach long-lasting profitable growth and realizing short term profits by uniting the strengths of both companies in the areas of research and development, production, purchase and expand the global presence of both brands.

On Sept. 18, 1998 the extraordinary general meeting of Daimler Benz agreed to change more than 90% of shares into DaimlerChrysler shares. Daimler Benz emphasized at this point that both companies acted on the background of good economic results and that the merger of two tradition-rich companies will lead to a new powerful organization. The two CEOs were sure that the two companies would merge and complement their product range and be able to realize synergy effects in the medium term. However, the integration of both companies was considered to be demanding, the process would lead to a new company which sets standards in terms of products, processes, innovation, technology, quality and profitability (DB Konzern-Zwischenbericht 1. Januar bis 30. Sept. 1998).

The merger of the two companies was completed in less than 200 days (see: DC Geschäftsbericht 1998): from the first talks between Schrempp and Eaton in January 1998 to the entry of the new company in the commercial register on Dec. 21, 1998. During the first 100 days after the merger the Post-Merger-Integration (PMI) Team organized all central tasks new and the intentions of the merger became clearer (see: DC Geschäftsbericht 1998): uniting the purchase department in order to gain advantages of the € 80 Bill. volume of purchase goods; integrating sales and marketing to enlarge the product and brand range; uniting central tasks, like e.g. quality assurance, finance and legal department, communication, information technology and worldwide management development to assure common standards (see Bécir 1999). According to DC the company was brought to life only within ten months but it would take another two to three years in order to finish the most important tasks of the integration.

After the announcement of the merger several news sources added new points that might be considered advantageous for both companies. The Handelsblatt (May 5, 1998) reported that Chrysler is more profitable than Mercedes Benz at the same turnover rate but

Daimler Benz has better perspectives due to a higher market capitalization and can also rely on other segments than cars. Both companies complement each other regionally and product wise: there is almost no overlap in the product range (except SUVs: M-Class, Grand Cherokee). Chrysler is strong in the field of light trucks, SUVs, pick ups, minivans and Daimler Benz covers the small car and luxury car segment. In terms of regional presence Chrysler could take advantage of the worldwide Daimler Benz sales network and Daimler Benz would be able to use the Chrysler sales network in North America, which would enhance its ambitions to become more international. Furthermore, the merger would secure both parties a strong position on the international automobile market and reduce exchange rate risks for both companies.

However, the question was if the two very different profit strategies of the companies could be matched (Freyssenet 1998). Mercedes Benz succeeded in being a producer of luxury models whereas Chrysler relied on the "innovation and flexibility" profit strategy. Even though the idea of the merger was to define clear-cut roles for both companies with Chrysler occupying the segment of innovative vehicles and Mercedes would strengthen its position in the high end luxury market it was unclear, if the combination of both profit strategies within one company would be long-lasting and successful.

Current Situation

During the first years after the merger, the Chrysler group experienced a severe crisis. This became obvious in declining sales, production, volume of sales and profits and led to a reduction of employees. The US-American management was not able to immediately make the turnaround. Therefore, the management of the Chrysler Group was replaced during the next years and key positions were assigned to German managers: most prominently the new CEO of Chrysler Dieter Zetsche, former head of the commercial vehicle department at DC. Furthermore, all executive management positions, except for two, were assigned to German managers (see appendix). Because the crisis at Chrysler was not only a crisis of sales but of efficiency, the reaction of the management was to immediately cut cost with suppliers and increase productivity in order to lower the break even from 113% of capacity utilization to 83% in 2003 (see FAZ 24.02.01). To reach these goals, Chrysler announced the shut-down of production sites, reduction of production and the layoff of employees. Furthermore, the reduction of platforms from 29 to 13 or 16 and the homogenization of electronics in the vehicles of DaimlerChrysler by using technology form Mercedes were steps taken to improve profitability.

Table 2. - Figures of the Chrysler Group

	1998	*1999*	*2000*	*2001*	*2002*
Production (units)	2.982.644	3.208.566	2.963.822	2.679.411	2.749.903
Sales (units)	3.093.716	3.229.270	3.045.233	2.755.919	2.822.659
Volume of sales (Mio. €)	56.340	64.085	68.372	63.483	60.181
Operating Profit (Mio. €)	4.212	5.051	501	-5.281	609
Employees	123.180	124.837	121.027	104.057	95.835

Source: Various Annual Reports from DaimlerChrysler.

By 2002 the new management of DaimlerChrysler managed the turnaround of the Chrysler Group. After the lay off of 26.000 employees and the closing of six production sites in the USA and Latin America (see SZ 30.01.01) the Chrysler Group returned to profit. After loses of € 5.281 Mio. in 2001 Chrysler made € 609 Mio. profit in 2002.

During the year 2002 the DaimlerChrysler Group was able to recover from the effects of the Chrysler crisis and reposition not only Chrysler but the whole group on the market. The product portfolio of DaimlerChrysler was expanded in several directions (see

Geschäftsbericht 2002): with the presentation of two new models of the revitalized brand Maybach DaimlerChrysler entered the niche market of high-class ultra-luxury vehicles and with the presentation of the smart roadster, smart roadster-coupé (market introduction April 2003) and the smart forfour (market introduction 2004) it closed a gap on the other end of the product portfolio offering a small city car and entering the niche market of small, affordable fun cars. Besides presenting new models, DaimlerChrysler also announced the presentation of about 40 new models for the model year 2003 (e.g. new T-, E-Class, MB McLaren SLR, Chrysler Crossfire, Chrysler Pacifica, Dodge LX and 12 new Mitsubishi models; see Geschäftsbericht 2002). And moreover, the Executive Automotive Committee (EAC) of DC announced that by 2004 the first commonly developed cars would reach the markets.

The further development in several sectors points to a new dynamic of centralization within the group (see Geschäftsbericht 2002). Four years after the merger of the two companies the first effects are realized. The procurement of the group was reshaped, i.e. procurement is now coordinated globally. Coordination takes place by online auctions for suppliers (through the company Covisint which realized 700 online auctions in 2002) and by so-called “lead-buyers” who centrally control procurement processes in close cooperation with the local purchasers. Beyond this, DaimlerChrysler also tried to harmonize processes, component declarations and purchasing systems. Furthermore, suppliers were grouped according to material groups and their number was reduced. Reductions were also carried out by harmonizing parts across brands, e.g. by reducing the variants of pumps for power steering from 14 to 3 (in 2006), replacing three sensors to measure tire pressure by only one, by the harmonization of power units for rear windscreen wiper across brands and by adjusting different prices from suppliers for exhaust gas systems.

In the field of internationalization DaimlerChrysler further extended its presence on the Asian markets by founding a joint venture with Hyundai Motor Co. which makes it possible to access the Korean market and other markets that were up to date not accessible due to high car prices. In the field of sales DC expanded its activities to establish itself further on the market in China. Internationalization and centralization also play a major role in the restructuration of important components for the DC group. Chrysler, Hyundai and Mitsubishi formed a joint venture, the “Global Engine Alliance”, to develop four-cylinder-petrol engine for passenger cars which will be used in their models.

The Executive Automotive Committee (EAC; consisting of CEO Schrempp, one representative of Mercedes, one of Chrysler, one of commercial vehicles, one of corporate development and one of Mitsubishi – all German) was the key instrument during 2002 for the discussion and preparation of group-wide automotive decisions. It served as a key instrument for the exchange of technology, know-how and components. Major topics for EAC during the year 2002 were: group-wide evaluation of products, drive trains and components; multibrand-management, i.e. differentiation of brands and at the same time reaching economies of scale; closer cooperation of brands and sharing of components, systems and platforms, although no brand will share a common platform with Mercedes; development of a common vehicle architecture in the field of SUVs and “Sport Tourer”; exploring the possibilities of harmonization and part sharing which are not brand relevant and can be sourced worldwide; group-wide reduction of variants of four-cylinder-inline-engines by 25% and development of a “world motor” which will be used from 2005 on in Chrysler, Mitsubishi and Hyundai models (estimated production: 1.5 Mio. units).

COMPARISON

Although both cases took place at different times and in different environments we can still point out some very interesting commonalities and differences.

Volkswagen and Mercedes Benz were known as landmarks of German industrial development before the mergers: Mercedes Benz for its high class and luxurious cars and Volkswagen as the symbol of the German "Wirtschaftswunder" and an internationally successful company. At the beginning of the merger both the goals and the realization of the merger were conceived very differently by the management of both companies. The case _koda not only required the reorganization and upgrading of a smaller partner it was also planned to be fully integrated into the Volkswagen Group. On the other hand the merger of Mercedes Benz and Chrysler was labeled a "merger of equals" and management thought that the merger would only require the integration of "behind-the-scene" activities. At the beginning of both merger processes the two companies were integrated into the mother group more or less loosely. Instead of a real integration or a hostile take-over (i.e. replacement of management, restructuration of departments etc.) Chrysler was only loosely coupled with Mercedes Benz at the beginning. US-American management remained in place and held the main responsibilities immediately after the merger. In the case of Skoda most of the management positions were immediately taken over by German Volkswagen managers and Czech managers were integrated into the Volkswagen management hierarchy. In the course of time the strategy was fully realized. Skoda then represented one brand within the Volkswagen Group which possessed comparable products and shared the same technology and production networks with the other brands of the Group.

At the first impression this is also the case for the merger of DaimlerChrysler. However, after Chrysler slipped into a (serious) crises the top-management of the group decided to put an emphasis on the German perspective and replaced several senior management positions with German managers in order to bring the Chrysler Group closer to the German headquarter and realign the position of Chrysler and its management within the Group. The aim of this strategy is to ensure the transportation of the "right" management principles, to reduce transaction costs and to reestablish the power equilibrium between mother and merged company. During this process the "merger of equals" turned into a rather asymmetrical relationship concerning virtually every area of the company. This means that the German part of the Group tried to benefit from the effects of the economics of scale by standardizing processes within the non-German part of the company. Thus, management decisions were taken by the German side in order to realign the Group and at the same time protecting the more "valuable" brand (Mercedes) from taking damage.

A common feature of both mergers is the perspectives that the mother group envisaged for their new companies. In both cases it was clear from the very beginning that the structure of the product portfolio and the sales markets would not jeopardize the position of the mother company. Volkswagen defined the new role of Skoda within the Volkswagen group as covering the markets in Eastern Europe and occupying the market niche of small and medium sized affordable cars. Many times after the merger several discussions concentrated on the topic if Skoda – with its' new high quality low price models like e.g. the Octavia or Superb – does not jeopardize the position of AUDI or upscale VW products like the Passat. Although the Volkswagen group integrated Skoda into the group-wide production network for components and engines as well as in the common standards for production, like the 'platform'-strategy, Skoda was not allowed to dominate within the Volkswagen group. Standards are defined from the center to the periphery and this means that the top-management of the Volkswagen group centralizes decisions on common standards. Decisions on where to produce which product and how many units are more and more subject to the global competition of production sites. The detailed realization of a certain product is then the responsibility of the local management. Important for the Volkswagen group is only that quality is according to standards and parameters like economic efficiency, production numbers etc. are met. Nevertheless, coordination of the company wide production network and local managerial autonomy of the smaller brands is less subject to market mechanisms but remains a power relation with a bias to the headquarter in times of economic slowdown, as recent developments at Skoda-Volkswagen show.

A similar perspective can be put on the case of the DaimlerChrysler-Merger but with a certain time lag. At the beginning Mercedes clear-cut roles for both companies in resp. of sales markets and product range were defined. Standardization was only a viable way for components, modules and parts that are not visible parts of the products. Up to now, Mercedes cars will not share platforms with other products of DC. However, the brands of DC are used by Mercedes as entry ways to (new) markets and customers. Moreover, the other brands besides Mercedes cover markets and niches that are traditionally not part of the Mercedes product portfolio or do not match with the image of the Mercedes brand. Whereas Mercedes holds the position as technologically innovative company the other brands are the beneficiaries of these technologies. Although Mercedes is a profitable brand within the group only with the close integration of parts sharing and common usage of sales structure is the brand able to reach economies of scale to make the company profitable. It remains to be seen if standardization and homogenization of products, parts and processes will be restricted to the brands Chrysler, Mitsubishi and Hyundai or whether the core brand Mercedes will be affected by this processes as well.

Although in different circumstances and constellations the most significant common development in both biographies is a type of enforced centralization occurring in and propelled by times of crisis. It limits the possible fields of action for the partner companies' management. As we are dealing her with German companies we would like to call this type of crisis intervention "Germanization". A similar pattern could be observed with the problems that BMW experienced with its new production facility in Spartanburg/USA back in 1994. Immediately after the start of production local management which consisted mainly of US-Americans was not able to handle the complexity of several products on one line (BMW 3 series and Z3 Roadster). After it became obvious that production lacked the required BMW quality standards senior managements positions were replaced by Germans and the structure of the production was streamlined down to one product on one line.

Both cases showed a consistency of aims, methods and the realization of the post merger integration phase which established a cooperative governance structure. However, the biographies of the mergers disclosed a turn away from these principles to a more hierarchical governance structure during the perceived crisis. In consequence management competences were shifted further to the German headquarters and the complete Group structure came under scrutiny, too. Both consequences were not the original intentions of the mergers and their participants. Therefore, one unforeseen result is the trend that the integrated brands are thought to be used as "tools" by the parent companies to strengthen their market positions and secure the benefits of economics of scale. This new form of Group wide 'division of labor' raises the question of persistency, consistency and includes a demand for (modified) integration and inclusion.

CONCLUSION

The research program of the GERPISA group focused on theoretical constructs during the last years. The aim was to establish a view on the success and failure, structurations and re-structurations of automobile companies that is different from the approach that the IMVP at MIT took. First investigations of trajectories and histories of automotive companies focused on empirical research that provided data for further theorizing. This lead to a theoretical explanation of the changes, success-stories and failures of the automotive industry, that provided a deeper insight. Nevertheless, after several structural changes, a wave of mergers and acquisitions and new forms of work organization it seems worthwhile to look again closer at the day-to-day reality of these new constellations of multi-brand-companies. In combination with other theoretical perspectives and the existing knowledge of the GERPISA framework this could lead to new insights into the power distribution, work organization policy and structuration of the reality of multi-brand, transnational companies.

One way of gaining deeper insight into the operational mode of these companies would be to focus more on processes within the companies. The perspective(s) from within provide(s) a better understanding of the existing governance structures as well as the power distribution among actors. Governance structures do not simply exist by declaration but require a certain “Einverständnishandeln” (consent acting; see Schmidt 1986) in order to come into being.

Moreover, open questions to a better and deeper understanding of mergers and acquisitions are related to the question which problems are addressed by this strategy of internationalisation and which problems evolve from it. Each perspective depends to a great degree on the opinions and positions of the relevant actors as well as the position of the business units within a company. Therefore, the posed question, if mergers and acquisitions are the “smart way of internationalisation” has to be answered from the perspective of the different actors involved. The answer to the question surely depends on the ability of the actors to promote a common understanding and acceptance of governance structures as well as a mutually accepted power relationship. Furthermore, the answer depends on the perception of the actors, if their envisaged gains are realized and if so or not so how the actors deal with the changes. Most probably the answer will change during the course of time.

Further research will show if the phenomenon “Germanization” is only a idiosyncratic, nationalistic way of coping with the internal and external problems that arise during the course of a merger in the automobile industry or if in any merger the dominating company is able and willing to formulate the position and perspective for the integrated company.

Appendix 1: "Management Decapitation" (in brackets end of the assignment); Source: Geschäftsbericht 1998 and 2002

	1998		2002	
	Mercedes Benz	Chrysler	Mercedes Benz	Chrysler
CEO 1		Robert J. Eaton (2001)	Jürgen E. Schremmpp (04/2005)	
CEO 2	Jürgen E. Schremmpp (2003)			
Product Strategy, COO Chrysler		Thomas C. Gale (2003)	Dieter Zetsche (CEO) (12/2008) Wolfgang Bernhard (COO) (09/2007)	
CFO	Manfred Gentz (2003)		Manfred Gentz (12/2004)	
Brand Management Chrysler Sales N-America all Brands, COO Minivans		James P. Holden (2003)		
Passenger Cars MB	Jürgen Hubbert (2003)		Jürgen Hubbert (04/2005)	
Commerc. Vehicl.	Kurt J. Lauk (2003)		Eckhard Cordes (12/2008)	
Sales Latin-America, COO Chrysler Trucks		Theodor R. Cunningham (2003)		
Procurement Chrysler COO Jeep		Thomas W. Sidlik (2003)		Thomas W. Sidlik (12/2008)
Passenger Cars, Trucks Chrysler		Thomas T. Stallkamp (2003)		
Procurement Worldwide		Gary C. Valade (2003)		Gary C. Valade (12/2003)
Brand Management MB, Sales all exc. N-America	Dieter Zetsche (2003)			
Human Resources Manager	Heiner Tropitzsch (2003)		Günther Fleig (09/2004)	
R&D	Klaus-Dieter Voehringer (2003)		Thomas Weber (since 01/2003; 12/2005)	
Group Development, IT Management	Eckhard Cordes (2003)		Rüdiger Grube (09/2007)	
Aerospace	Manfred Bischoff (2003)		Manfred Bischoff (12/2003)	
Services	Klaus Mangold (2003)		Klaus Mangold (12/2003)	

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