



UNIVERSITY OF GOTHENBURG
SCHOOL OF BUSINESS, ECONOMICS AND LAW

**Can corporate-cultural differences affect the outcome of
M&A? – A study of the DaimlerChrysler merger**

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Abstract

Authors	Carl Egerlundh and Peter Ihre
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Title	Can corporate-cultural differences affect the outcome of M&A? - A study of the DaimlerChrysler merger.
Problem	In a globalizing world, companies increasingly operate across borders and cultures. In order to remain competitive, the importance of cultural knowledge becomes evident. At the same time, the rules are changing; in the automotive industry, for instance, the number of independent manufacturers has decreased as firms come together in order to benefit from new growth possibilities, improved international range and shared technology etc. This consolidation process has resulted in a number of mergers and acquisitions throughout the industry. As we have a closer look at the specific case of the DaimlerChrysler merger and its actual outcome, the impact of cultural differences, both from national and corporate perspectives, is of great interest to us. Did corporate-cultural differences affect the outcome of the merger? What could have been done prior to the merger to minimize culture related differences? And in general, what are the potential problems of cultural differences in merger and acquisitions?
Aim	The main aim of this study is to analyze the potential impact of corporate cultural differences in merger and acquisitions and in particular in the case of the DaimlerChrysler merger that was implemented in 1998.
Limitations	We will focus our efforts on the impact of corporate cultural issues in merger and acquisitions in relation to the DaimlerChrysler case.
Method	This is a qualitative case study. Qualitative methods are generally concerned with interpretation, holistic understanding, which we find the most suitable for our research.
Findings	There are a few main conclusions of this thesis. We identified three particularly important problem areas in relation to corporate cultural differences in M&A: decision making, objectives and motivational factors. It is our conclusion that corporate cultural issues were underestimated during the initial parts of the merger and that a more thorough integration process along with an accurate culture-focused pre-merger analysis could have minimized the culture-related difficulties within DaimlerChrysler.
Suggestions	For further research, we suggest more focus on the three problem areas identified in this study. That means deeper knowledge of the impact of corporate cultural differences concerning decision making, objectives and motivational factors



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1. Introduction

The following section gives the general background to the subject and highlights why the authors have chosen to study the corporate cultural aspects of Mergers and Acquisitions (M&A) and in particular the case of DaimlerChrysler.

1.2 Background

As companies increasingly find themselves working across borders, the importance of cultural knowledge becomes evident. Failing to understand the complex relationship between culture and business equals falling behind competitors. Today, cultural knowledge is power, and in turn, companies and organizations that master the modern networks and strong cross cultural relationships, will be immensely competitive. They will never underestimate the importance of cultural differences in business, both from corporate and national perspectives. These companies work to understand and adapt to the multicultural context in which competitors and partners operate.

Globalization means constant change. The business environment changes, new industries arise, new companies are established, and some fail while others succeed. In order to cope with the ever changing conditions of a global market, some organizations come together to benefit from size, geographical expansion, research and technology. In international business, these transactions are often in the form of mergers and acquisitions. As mentioned above, the reason behind merger and acquisitions is often to gain from the numerous potential benefits such a transaction presents. However, research shows that a majority of mergers and acquisitions actually fail to achieve the expected synergies. Naturally, such a complex process, and the reasons behind its failure cannot be explained simply by referring to culture-related problems, the variables interacting are countless. But the importance of corporate cultural issues related to merger and acquisitions must not be underestimated. In this thesis, our aim is to find out more about the potential effects of corporate cultural differences in merger and acquisitions.

Today, globalization is essential to almost every industry. One industry, which bears a significant historical importance and that has experienced substantial change over the years, is the automotive industry. Over the past thirty years, the automotive industry has seen a rapid decrease in its number of independent manufacturers. This consolidation process, which originated in the benefits of shared technological solutions, growth possibilities and mass production, has resulted in a number of mergers and acquisitions throughout the industry.

Naturally, these transactions have included companies from diverse parts of the world and of different corporate and national culture.

In the late nineties, the merger between German Daimler-Benz and American Chrysler attracted a huge amount of attention. It was hyped as the perfect marriage, both sides would gain from geographical distribution, car models would supplement each other and production of scale and common research and development meant huge potential savings. The merger ended up being a disaster. Evidently, very early on, DaimlerChrysler experienced problems in direct connection with corporate culture differences. In retrospect, these differences were badly managed. A fact that leaves us with an interesting problem: First of all, did corporate cultural differences affect the outcome of the merger? Secondly, could anything have been done to minimize the culture related difficulties within the company prior to the merger?

1.3 Research Question

From a corporate cultural perspective, what are the potential problems of cultural differences in mergers & acquisitions?

1.4 Sub question

In the DaimlerChrysler case, what effects did the corporate cultural differences have on the outcome of the merger?

What could have been done to minimize culture-related difficulties within DaimlerChrysler prior to the merger?

1.5 Purpose

The purpose of this thesis is to clarify the potential impact of corporate cultural-related differences in mergers and acquisitions and in particular in the case of DaimlerChrysler. Furthermore, our study seeks to examine whether there is a connection between the outcome of the merger and corporate cultural differences of the two companies. If our investigation concerning corporate cultural differences within DaimlerChrysler, both from theoretical and practical perspectives, supports the theory of a potential impact, we want to analyze what precautionary actions could have been performed in order to minimize damage. Naturally, a comparison between actual cultural integration procedures and theoretically supported procedures becomes essential in order to fulfill our purpose. The study could also serve as a strong foundation for our further examinations of corporate culture, which is an area of

particular interest to us. Furthermore, it is of great interest to us to be able to follow a transaction of such historical value and substantial size, from such a close range.

1.6 Delimitations

This thesis will focus solely on corporate cultural issues even though we are aware of the significant impact general culture pose on the evolution of corporate culture. However, since culture as a general expression is of such great importance, it will be discussed in the theoretical framework, but not in the analysis. It is simply too large and complex for a thesis of this kind. We further limit ourselves to one case, since it would be too extensive to analyze other mergers in a study of this type. Regarding the DaimlerChrysler case, we will limit our analysis to the corporate cultural aspects of the merger and its possible impact on the end result. Still, we find the subject interesting and consider it to be a potential topic for future study.

1.7 Research design

2. Method:

In this part of the thesis we describe our methodological approach when investigating the subject. It describes and evaluates our applied method, the initial planning process, collection of data, and our research approach. Furthermore, it will discuss reliability, validity and scope of the study.

3. The Theoretical Framework:

The framework aims to provide the reader with a necessary foundation that will contribute to a thorough understanding of corporate cultural issues in M&A. M&A are discussed in general, followed by an in depth description of culture to lay the ground to a further explanation of corporate culture, cross-cultural management and theory on cultural issues in M&A.

4. The DaimlerChrysler Case Description:

The case description is created to first overview the Automotive industry at that time as a whole, in order to further understand the environment in which Daimler and Chrysler were operating. Furthermore, a short description of the two companies is given before the actual merger and its course of events will be presented.

5. The Analysis:

In the analytical chapter of the thesis, the different parts of the theoretical framework will be discussed, compared and put in relation to the actual process and outcome of the DaimlerChrysler merger.

6. Conclusions:

The last part of the thesis will simply focus on answering the research question and the two sub questions presented in the introduction chapter.

2. Method

In this part of the thesis we describe our methodological approach when investigating the subject. It describes and evaluates our applied method, the initial planning process, collection of data, and our research approach. Furthermore, it will discuss reliability, validity and scope of the study.

2.1 Planning process

There is already a substantial number of studies and extensive literature analyzing the subject of corporate culture, both in general terms but also in connection with M&A. The Daimler-Chrysler merger showed to be extensively covered in reliable contemporary media, providing us with substantial archival material and in turn a detailed timeline of actual events.

As we initiated this project, beginning with the collection of qualitative data, it was clear to us that a thorough and ambitious selection process was a necessity in order to find adequate accurate material. Firstly, we screened archival material of finance branch media, tracing coverage back thirteen years and all the way to the separation of Daimler-Chrysler in 2009. Secondly, we collected and reviewed literature discussing culture in general, corporate culture, cross-cultural management and culture in M&A, in order to establish a conception of theoretical framework. Thirdly, from the collection of research material, we formulated and defined the problem and purpose. Last, the methodological process with problem formulation and actual aim was discussed with our tutor.

2.2 Evaluation of Research Approach and Methods

The method used in this thesis is of a qualitative nature since “quantitative research can not deal with the social and cultural constructions of its own variables” (Eriksson, et al, 2008: 4). Qualitative and quantitative research can sometimes be hard to distinguish. However, qualitative methods are generally concerned with interpretation, holistic understanding and focused on structured, standardized and theoretical ways of collecting and analyzing data (Eriksson, et al, 2008). The thesis is based on social and cultural constructions under certain circumstances and a qualitative method is therefore inevitable.

There are several possible approaches when choosing a method of qualitative nature; however, after discussions, a case study research seemed to be the best choice. “Case study research is presented as a research strategy when addressing complex organizational, managerial and other business issues, which are considered difficult to study with quantitative methodologies” (Eriksson, et al, 2008: 116). Eriksson and Kovalainen (2008) further state that

the common view on case study research is the focus on the “production of detailed and holistic knowledge” (Eriksson, et al, 2008: 117). The end product should be based on various empirical sources; it should also contain diversity and complexity (Eriksson, et al, 2008). When constructing a successful case study the authors ought to provide the reader with a multi-approach view of the situation. However, the writers need a well-formulated problem and limitations in order to reach this target (Bell, 1999).

2.3 The Collection and Presentation of Data

Qualitative data have been used in order to execute our study and the sources are of secondary nature. Secondary data can be defined as information that have been publicized and interpreted (Nyberg, 2000). Initially, information regarding M&A was studied in order to get an overall understanding of the problems that generally occur in such situations. The objective was to find previous studies and theoretical frameworks that were applicable to our thesis. The theoretical frameworks were mainly found through databases and books. Google Scholar and the university library have been frequently used. Repeatedly used key words to retrieve data have been “Cross cultural management”, “Corporate culture in M&A”, “Corporate cultural differences in M&A” ,etc. Data regarding Daimler and Chrysler were mainly collected from academic journals, newspaper articles and books addressing the DaimlerChrysler merger.

The DaimlerChrysler merger has previously been analyzed and studied extensively. The problem has been to scan and extract the most relevant data for the thesis. Initially, in order to gain understanding of the DaimlerChrysler merger, we looked at media archives with articles addressing the specific case. However, the deeper insight of the sequence of events was achieved through studying the books *Taken for a ride* (Vlasic, et al, 2000) and *Wheels on fire* (Waller, 2001), which in chronological order describe the course of events in the DaimlerChrysler merger. The books are written by journalists working at the Detroit News and Financial Times Germany, and based on various interviews with stakeholders, secondary accounts in acknowledged newspapers and other literature concerning the specific case. However, they only concern the merger until 2000 and 2001 which left a gap in the merger timeline. This issue was relatively easy to solve since this particular merger is very well covered by newspaper articles and academic journals, which the authors have used to fill in the blanks.

The theoretical framework has been divided into two parts; first, to lay out the foundation of culture, in order gain a deeper understanding of the cultural theories in M&A. Culture is a term which is hard to define. Hence, the primary goal was to establish a definition of the term culture and ultimately corporate culture. There are a few definitions of culture that are generally accepted by the public, but the one described by Kroeber and Kluckhohn is considered essential. To gain further knowledge about culture, for example, what forms culture, cultural diversity, corporate culture and cross cultural management, we have read numerous articles and books that shares various views on the respective subjects. In order to understand corporate culture in M&A, we have studied several theories on cultural issues in M&A. To further widen our understanding, several reports have been studied, e.g. PWC conducted one study about M&A, its benefits and reasons for failure. The reports were based on different surveys in which investors and analysts answered questions about M&A (PWC study, 2011).

2.4 Validity and Reliability

Validity defines to what degree a study actually measures what it aims to measure (Eriksson and Wiedersheim, 2001). Reliability on the other hand, is the way a study consistently performs the same result in repeated trials. That is, the certainty and occurrence of unsystematic errors in a used method (Esaiason et al, 2007). We have collected data in a consistent and systematic way throughout this study. This is a subject that has been thoroughly studied, which contributes to the reliability of information. Information regarding the merger has been collected from reliable sources that have frequently been cited and articles from academic journals and newspapers such as *the Economist*, etc. However, the use of secondary data puts pressure on the researcher to verify the accuracy of the information if the thesis wants to be considered as valid and credible. Our main sources, *Taken for a ride* (Vlasic, et al, 2000) and *Wheels on fire* (Waller, 2001) are based on interviews and secondary data and could therefore be considered as unreliable. However, as mentioned earlier, since the authors have a quite credible background at recognized newspapers, we have decided to consider them as accurate, valid and credible. Further evidence to that statement is that both books are in accordance and at the same time independent from each other. The other main sources the researchers have used such as, Holden (2002), Steers, et al, (2010), and Gertsen et al. (1998) are frequently quoted which further contributes to a high credibility. If another investigator were to follow our procedures as described and conducted the same case study again, they would arrive at the same conclusions and result.

3. Theoretical Framework

In this thesis, our aim is to understand the importance and effect of corporate culture in mergers & acquisitions, specifically concerning the automobile industry. Hence, our theoretical framework must include past and present research in order to get a basic understanding of M&A, culture, and in particular, corporate culture.

3.1 Mergers and Acquisitions

During different periods of time, the world has experienced a substantial number of M&A. Evidently, when organic growth is not an option, companies find consolidation as a natural way of achieving continued growth. One M&A usually follow another and the DaimlerChrysler case was no different. In 1998, the world was basically experiencing a merger explosion. Exxon and Mobil fused just a couple of months after British Petroleum acquired Amoco. Citicorp merged with Travels Group right before BankAmerica joined NationsBank. The telecommunications companies merged like no other business; AT&T joined TCI, Bell Atlantic Corp. fused with GTE and SBC Communications bought Ameritech (Vlasic et al. 2000).

Mergers & Acquisitions are terms generally considered to be identical phenomenas. However, they are products of different legal transactions. A merger is defined as the transaction of all assets to one company or by two or more companies joining together into one new entity. An acquisition on the other hand is executed when one company invests in a majority of the stocks and through that controls the acquired company. Hence, the power relations are clearer in an acquisition due to the more dominant acquiring partner (Gertsen et al. 1998).

There are many reasons for a company to engage in M&A; the home market is saturated, the need of quick access to foreign markets, synergy effects, political constraints, competition with other companies, quick growth, etc. The event of a merger or an acquisition could be very effective for both parts if it is conducted the right way and if integration is successful. However, M&A often produce disappointing end results and do not live up to the expectations, although there are various underlying reasons for them. Historically, numerous studies have been conducted with the aim of examining whether or not M&A are successful with the general conclusion that in most cases, the companies fail to increase shareholder value, fail to achieve expected revenue synergies and even destroy value. There are many underlying reasons: Firstly, the acquiring firms frequently seem to overpay the assets of the acquired firm. If there is more than one company interested, prices tend to increase.

Moreover, a recurring problem the management of an acquiring company experiences is the optimism regarding the value that can be created through an acquisition. This generally generates a premium well above the acquired company's market capitalization. A contributory factor is the fact that managers tend to exaggerate their own ability to create value in an M&A and are therefore willing to pay above the actual value. The importance of cultural differences often becomes obvious after the M&A and is in many cases neglected in the pre-analysis by the two companies. Clashes in culture usually lead to discontent and can generate a high management and employee turnover. As mentioned before, one of the main reasons for M&A is the creation of synergies. However, slow integration of the companies due to various difficulties such as difference in culture, corporate culture and management style are usually reasons for failure in realizing synergy effects. Also, the delay in realization of synergies is often pointed out as a reason for failure in M&A. Finally, inadequate analyze of the benefits and cost savings prior to the M&A also largely contribute to the success rate being embarrassingly low (Hill, 2009).

3.2 Culture

When studying the complicated meaning and the many definitions of culture, it is necessary to, as far as possible, focus our efforts on the core factors specific to the case. For instance, in the automotive industry, there are certain important aspects to the conditions of the organizational culture in relation to the national culture that must be noticed. The great car manufactures tend to hold strong financial and cultural positions at home, often gaining from protectionist governmental behavior. In Sweden, through the recent turbulence surrounding SAAB there has been substantial governmental involvement. When Daimler initiated preparations to merge with Chrysler, it was essential for the company to have government support and to keep top politicians involved. Examples are numerous. The future of a company with such a strong heritage and of significant cultural importance is simply of national interest. It affects economy, job possibilities, national identity and the industry in general. Hence, it becomes essential to closely observe the potential impact of national culture on the outcome of a cross-cultural transaction of this kind.

Research concerning national and organizational culture very often includes individualism or collectivism as important factors. Do individuals of a society see themselves primarily as members of a group or as individuals? Or are societal goals more important than individual goals? What are their cultural manifestations? In business, how important are actual contracts compared to strong relationships? (Steers, et al, 2010). One must wonder if it is actually

possible to generalize on a culture using such broad expressions. And, if cultural differences between certain groups are seemingly small, is it necessarily easier to deal or cooperate with each other?

There are clearly numerous questions about the meaning and function of culture. This chapter will discuss the general meaning of culture through several definitions, their differences and the potential problem in relation to the obvious tendencies of generalization. We will also discuss corporate culture and cross cultural management and lastly the cultural issues of mergers & acquisitions.

3.2.1 Defining Culture

As a word or expression, culture is one of the most complex ones in the English language (Holden, 2002). Of the many definitions, one of the most widespread and quoted is by Kroeber and Kluckhohn who in 1952 defined culture thus:

“Culture consists of patterns, explicit and implicit of and for behavior acquired and transmitted by symbols, constituting the distinctive achievements of human groups, including their embodiments in artifacts: the essential core of culture consists of traditional (i.e., historically derived and selected) ideas and especially their attached values; culture systems may, on the one hand, be considered as products of action; on the other, as conditioning elements of future action” (Steers, et al, 2010: 21).

However, a shorter, perhaps even more celebrated definition is from Hofstede (1980), who defines culture as follows:

“The collective programming of the mind which distinguishes the member of one human group from another...the interactive aggregate of common characteristics that influences a human group’s response to its environment.” (Hofstede, 2005: 14)

Although Hofstede is certainly one of the most influential figures within culture-related research, there are scholars that take on slightly different approaches to culture. For instance, Sociologist Ann Swidler works from the idea of culture as a problem-solving toolkit of symbols, stories, rituals and worldviews that help people of a culture survive and succeed (Steers, et al, 2010). Anthropologist Clifford Getz defines culture as the means by which people communicate, perpetuate and develop their knowledge about attitudes towards life (Steers, et al, 2010). Although the difference is minor, it could still serve as an indication of a

possible development in the area of culture research and support the idea of culture as a non static phenomenon.

3.2.2 Cultural Manifestations

Basically, culture tells us what is acceptable and what is not. In every person there is a pattern of thoughts, feelings and certain ways of acting formed throughout the individual's lifetime. A large part of this formation process is directly linked to early childhood, a time when human beings are highly receptive to learning and adaption. These patterns, which Hofstede describes as "mental programmes", derive from the social environments in which we grow up and gain experience. Culture is always something collective, it is absorbed in the social environment and it defines the unwritten rules of the social game. To an individual, culture is learned; it is not in your genes and can not be related to human nature or individual personality (Hofstede, 2005). Cultural differences are expressed very differently. Hofstede (2005) basically describes different cultural manifestations through four levels, Symbols, Heroes, Rituals and Values.

Symbols basically define the gestures, words, objects or pictures of certain importance to the people within the culture. These factors are usually not deeply embedded within the culture but actually changeable and replaceable. On the next level, Hofstede places the heroes. These are persons with attributes highly valued within a culture; they are basically role models, dead or alive, real or fictive. Rituals are activities regarded as important within a culture. It can be ways of greeting each other or certain religious and social ceremonies that always include culture specific communication. Values form the core of a culture. Values are the general tendencies of preferring certain conditions to others and are often absorbed very early in life. Values are positive or negative feelings closely connected to the basic ideas of good and evil, moral and immoral, normal and not normal, allowed and forbidden, etc (Hofstede, 2005).

3.2.3 Cultural Diversity

There is a danger in the quite common perspective of culture as something stable and unchangeable. It is important to remember that culture evolves, it is not homogeneous and it actually allows internal variations. (Steers et al. 2010). Furthermore, one must be aware of the quite limited set of levels or dimensions often used when defining culture. Culture is far more complex, well beyond any general classification. People within one culture belong to several conflicting cultures that include profession, education, geography, religion, etc. A countless number of variables provide people with different cultural tools often overlapping each other. Naturally, every person belongs to more than one culture at a time (Steers, et al, 2010).

Cultures are in constant change, both in terms of values and rituals. The basic reason for the great cultural diversity is the initial process of adapting to new environments. Along the timeline of human existence, through substantial movement and with an expanding population, different cultural solutions were simply necessary in order to survive. Add a history of natural disasters, war, religious missionary, trade and the creation of states, and the reasons of change and cultural diversity becomes quite clear (Hofstede, 2005)

Within every culture, there are certain aspects that can be put in relation to the same aspect within a different culture. These aspects are based on the idea that, from a social anthropological view, every society has the same basic set of problems and that only the solutions differ. There are five dimensions; distance of power, collectivism versus individualism, femininity versus masculinity, avoidance of uncertainty and short- or long- term orientation. Together, they form a five-dimensional model of the differences between national cultures (Hofstede, 2005). However, Hofstede's study was only based on one company, which may have influenced the end result.

3.2.4 National and Corporate Culture

When discussing culture, as in this paper from a company perspective, one must clearly distinguish between national culture and organizational culture. Interestingly, although limited, there is a connection (Hofstede, 2005).

Many firms operate across national borders and are not particularly bound by patterns of national culture. An organization is a social system of a different form in comparison to a national culture. A person is born and raised into a national culture; it is absorbed in the early parts of life and in that sense not chosen. Corporate culture however, is often chosen and it is limited to working hours and the time a person is involved in the organization. It is established to simplify and maximize the process of fulfilling the needs and objectives of a company. Every firm has its own corporate culture greatly influencing company behavior, quality, customer orientation, ethical standpoint and corporate responsibility etc. For management, culture is widely regarded as a problem area.

Naturally, national culture is itself immensely complex. An organization is constantly part of several cultures, with a diverse set of influences: religions, national culture, corporate culture, etc. Examples are numerous. For instance, national culture and religion greatly affects the financial system of a country. Holden (2010), mentions local business practices, accounting and finance practices as particularly influenced. In several Muslim cultures for instance,

Muslims are prohibited from paying or receiving any form of interest since it equals taking advantage of the less fortunate. Instead, money-lending is based on a profit sharing that is often predetermined. Furthermore, services and products that actually contradict the rules and values of Islam are banned from any economic activity. This exemplifies the differences in relation to religious influence that in general affect larger parts of the world and not just individual nations. However, although religion is shared, differences in national culture evidently affect traditions and practices on every level of a society (Holden 2010)

Holden mentions how German and American firms tend to differ when analyzing investment options. Firstly, German decision-making procedures tend to be longer and analyzed from payback methods while Americans take faster decisions using discounted cash flow techniques. At the same time, Germans seem to prefer more conservative accounting procedures and financial objectives as the opposite to American firms which prefer non-conservative practices. Reasons are most likely found in the individualism contra collectivism societies of USA and Germany where the Americans strive to protect the rights of individual investors while German firms tend to avoid uncertainty. The examples of national culture related differences are numerous. Although these examples present seemingly small differences, their potential effect is significantly larger and realizing the issues in relation to corporate culture, naturally becomes immensely important (Holden 2010)

As noted earlier, governments tend to be very protective of large domestic companies. People in general seem to have a nationalistic and protective approach to the major firms of their countries. In Sweden, this is exemplified by IKEA, Volvo and H&M, three companies that are essential to Swedish identity, at home and abroad. From a national perspective, if it is possible to generalize to such an extent, there are certain tendencies that should be noticed. For instance, one interesting observation concerns cultural differences and cooperation. Is it harder to deal with large cultural differences than smaller ones? Research implies that this is not the case. Instead, Steers et al. (2010) think that managers moving between different cultures often find it to be reversed and that smaller differences are often overlooked and not handled until the damage is done. In a recent joint venture between a Brazilian and Chinese firm (two very different cultures), the smaller similarities such as the same economic development level and the importance of relationships in business actually worked to unify both sides. A recent study showed that Portuguese managers found working with Scandinavians easier than with Spaniards or Brazilians, two cultures far more similar to their own (Steers et al. 2010). Still, for social interaction, the Portuguese preferred Spaniards and

Brazilians to Scandinavians. One Chinese manager commented on the Brazilians and the mutual feeling of being on the same level and treating each other from that perspective as an essential and possibly far more important factor than the cultural aspect. This implies that there is no good or bad to cultural differences but that it is very dependent on the situation and that the outcome is most difficult to predict (Steers et al. 2010).

Corporate culture can be defined as “the collective mental programming that distinguishes an organizations members from another organizations members” (Hofstede, 2005: 300).

Obviously, there are certain cultural differences, small or large, between every organization. When organizations collide, in the form of, for example, cooperation or M&A, managing culture-related problems are often referred to as cross cultural-management.

3.2.5 Cross Cultural Management

Cross Cultural Management is a form of organizational knowledge and resource that when recognized, could greatly improve the handling of managerial problems and performance. Holden (2002) sees three core problem areas in international business regarding cross-cultural management issues: the challenges of ethnocentrism (the idea of your own ethnical group or culture as a centre force), cultural diversity (cultures and languages, etc) and the cultural shock that varies with experience and may be lesser or greater in impact (Holden, 2002). Holden also presents core solutions to each problem area meaning adaption as a first reaction to culture shock followed by adjustment as a more permanent and positive reaction and the development of certain cross-culture skills possibly through training interventions: creating the cross cultural manager (Holden 2002: 30).

Naturally, it would be most satisfactory if one could develop general instructions on how to act in order to minimize culture-related damage when integrating two organizations. However, this is an immensely complicated matter. As the business environment globalizes, cultural differences develop and present themselves in new ways, through new technologies and across borders. It is multicultural both from geographical and organizational perspectives. Simply put, defining cultural aspects is difficult since it is in constant change. Interestingly, today, when culture-specific awareness should be a necessity, it is seemingly often forgotten, resulting in misunderstandings and clashes far worse than necessary. Such a cultural specific awareness requires great efforts from the organizations themselves. Throughout the organization there must be a clear ambition to communicate and build relationships through self-discipline and a clear individual responsibility.

3.2.6 Culture as asset

Culture itself must not be viewed as a threat but as an asset or a source of knowledge in order to effectively respond to the differences and demands of cross-cultural activities. It is an essential part of successfully operating a global market. Hence, well-developed organizational knowledge is a great advantage. The term knowledge does not imply scientific knowledge, but experience, values, practices, routines and norms. Holden (2002) divides knowledge into tacit and explicit knowledge with tacit representing personal “know-how” and context specific knowledge that is hard to formalize. Explicit knowledge, described as “know-what”, represents knowledge through manuals, specifications, mathematical expressions, etc. Tacit knowledge is extremely difficult to copy and is an advantage to any globalizing company. One way of gaining broad tacit knowledge is by rotating managers and technologists around the world to develop deep local roots and to share expertise (Holden, 2002). Naturally, tacit knowledge is something that an organization needs to nurture and protect. Still, there is a huge challenge in translating actual experiences into usable knowledge, but also in spreading this knowledge across organizational borders (Holden, 2002)

From an international perspective, there are certain potential problems in the global transfer of knowledge especially in connection with merger and acquisitions. Factors such as a natural cultural distance, a lack of personal relationships and a lack of trust might very well create frictions, misunderstandings and resistance (Holden, 2002). Also, research confirms that companies involved in M&A tend to underestimate the difficulties of knowledge transfer as they often fail to achieve the expected levels of transfer. The structures and procedures of knowledge transfer are simply not good enough. It is also likely to believe that knowledge transfer is especially complicated in cross-cultural environments because of differences in language, work groups and context. In order to address problems in relation to resistance to or slow moving cultural adaption, the parties involved must negotiate and sharing must be encouraged and rewarded (Holden, 2002). Firms simply need to be more serious about the cultural aspects of integrating activities in cross cultural M&A.

3.3 Theory on cultural issues in Mergers & Acquisitions

There are many incentives for companies to engage in M&A but there are also several problematic cultural dimensions in need of consideration (Gertsen et al. 1998). In the early planning stage of an M&A, the parties involved tend to neglect the importance of culture or at least have difficulties handling it properly. Also, the awareness of cultural difficulties appears to be more obvious for the actors in the latter stages of an M&A. It is often discussed in

literature that cultural aspects need to be acknowledged and evaluated in the early stages. However, the literature offers little or no proposals on how to implement an easy and cost-effective cultural analysis. When potential M&A get noticed by both parties, the negotiation usually takes place and the information flow between actors tends to be cut off with the exception of public information and the negotiation discussions (Gertsen, et al, 1998). These conditions are the main reasons for the difficulties companies experience when trying to implement an early stage cultural compatibility research (Forstmann, 1994). According to Gertsen et al. (1998) M&A have historically been dominated by four types:

- Horizontal: between companies in the same sector and at the same production stage;
- Vertical: between companies at different production stages in the same sector, e.g. purchase from suppliers or the retail stage;
- Concentric: between companies in different but related sectors, e.g. a manufacturer of sports equipment and a manufacturer of leisure wear;
- Conglomerate: between non-related companies

When engaging in an M&A in the horizontal or vertical category the reasons may be to achieve synergy and large-scale effects, contrary to the conglomerate type where the aim is to diversify their operations more (Larsson, 1990). The type of M&A and the underlying intentions usually decide the extent of the cultural integration, and the importance of integration in horizontal and vertical types of M&A is very high as it requires extensive interaction and organizational changes. Areas that are affected by integration are typically finance, personal policy, marketing and in some cases even joint production and offices (Gertsen et al. 1998).

Gertsen, Söderberg and Torp (1998) further state that the organization expects cultural integration after an M&A of some sort, typically a united management style or shared norms and values. M&A have historically been thoroughly studied with a strategic-economic focus but in recent years, research has switched to aim at more cultural issues. The reasons for the new focus can be explained by the low success rates that M&A experience and the need to find answers to the obvious problem. The majority of the culture-oriented studies emphasize the influence of culture and its impact on the success rate of M&A. However, it is hard to measure to what extent it affects the new entity, but it is almost never without significance (Gertsen et al. 1998).

3.3.1 Acculturation

When discussing contact between different cultures it is important to mention acculturation. For instance, acculturation is when people from different cultures meet by working together and reacts or adapt to the other culture. Basically, this is what happens in an M&A (Berry, 1980). Berry also claims that there is one group that is more of a leader in these situations and that its culture will dominate in the end, resulting in an adaption process full of conflicts. The process of change can decrease the level of conflict and can differ from case to case:

- *Assimilation*: the non-dominant group relinquishes its identity;
- *Integration*: the non-dominant group maintains its cultural integrity but becomes at the same time an integral part of the dominant culture;
- *Rejection*: the non-dominant group withdraws from the dominant culture;
- *Deculturation*: the non-dominant group loses cultural and psychological contact with both its own original culture and the dominant culture (Berry, 1980).

Berry asserts that assimilation is not always the case with culture contact and that it can depend on the weak part's relationship to its own culture and also to the more dominant part. The other determining factors are the dominant part's acceptance to other cultures and other cultures within their territory. Malekzadeh and Nahavandi (1988) have developed models for different types of cultural adaptation processes for the acquiring and acquired company with help of Berry's conceptual system and with the conception that the acquired firm is the non-dominant culture.

They have divided their adoption process into four categories:

- *Integration*: The acquired firm is fitted into the acquiring firm, although differences in culture are still accepted. This is the optimal way to go if the employees of the acquired firm want to keep their culture while still finding the acquirers' culture interesting. The acquiring firm finds this process attractive if it is multicultural and if the firms are related.
- *Assimilation*: The acquired firm adapts entirely to the acquiring firm. This is the optimal procedure if employees of the acquired firm feel no need to keep their culture and finding the acquirers culture interesting. The acquiring firm finds this beneficial if it is unicultural.
- *Separation*: The acquired firm and the acquiring firm either abandon the idea of cooperation or find a structure in which multiple cultures can live separately. If the

acquiring firm's culture is unattractive and there is a need to protect that of the acquired firms, this is the optimal choice. It is also favored if the acquiring firm is multicultural and the companies are not related.

- *Deculturation*: It is what happens when the acquired firm finds neither of the cultures attractive and in this case the acquired firm falls apart. This might be the case if the acquiring firm is unicultural and the companies are not related (Malekzadeh et al. 1988).

Malekzadeh's and Nahavandi's models have not been tested empirically, but the assumptions made are that the management of the two companies must study and evaluate the cultures to be able to establish guidelines for acculturation. Furthermore, the investigation of the employees of the acquired firm and their attitudes towards both cultures is of great importance. The management also needs to decide whether their organization is multicultural or unicultural (Gertsen et al. 1998).

3.3.2 Cultural fit between companies

Another study that needs to be mentioned is Cartwright and Cooper's *Model of Cultural Fit*. They look at corporate culture as "the way in which things get done within an organization" (Cartwright et al 1992: 56). Moreover, they also define culture as the shared values and shared basic assumptions that are often unconscious. Cartwright and Cooper also assert that culture is spread through socialization and is not only caused by management (Gertsen et al. 1998). They have studied several companies that have experienced M&A with focus on the cultural fit in horizontal large-scale integration M&A.

Cartwright and Cooper (1992) have established a culture typology that they claim describe all different types of organizational cultures (Table 1). When these types are mixed in an M&A the authors claim to be able to predict the outcome. However, two organizational cultures do not necessarily have to be very similar to become successful, but they must be able to cooperate. The acquired firm is expected to adapt to the acquiring firm's organizational culture. Cartwright and Cooper (1992) claim that the extent to which personal freedom is affected is more important than cultural differences. Has the personal freedom of the employees decreased or increased? If the freedom increases, employees generally feel satisfied. If they feel that it has decreased, it normally creates cultural problems.

When looking specifically at mergers, Cartwright and Cooper argue that the distance between the two companies is central. Since both of the companies usually want to keep their culture,

it is important to have similar cultures that work together. They believe that negotiators should use models in order to establish whether or not the companies in an M&A have a cultural fit before going through with the deal to prevent M&A that are incompatible. Another advantage is that the prior analysis can help to find problems so that they can be avoided already in the integration stage of the M&A (Cartwright and Cooper 1992; 1993, 1996) (Gertsen et al. 1998). Cartwright and Cooper also highlight the importance of the right management of integration process, since it results in failure despite the fact that chances of successful cultural adaption are considered good.

Table 1

Power culture:

In this culture, a distinct centralization of power is seen. It is often a question of small companies, often with a charismatic leader. Decisions are made by management alone and are frequently based on intuition. The wage systems are based on the personal preferences of the management, and the employees have few challenges. A distinction is made between two types of power culture:

Patriarchal: The employees regard the leader's power as legitimate. The leader is seen as kind and protective. The employees are treated as children and are badly informed.

Autocratic: The employees do not regard the leader's power as expressly legitimate. The leader's personal commitment to the organization and employees is limited; being primarily a question of personal gain.

Role culture

It is basically a bureaucracy, where logic, rationality and efficiency have pride of place. What are important are functions rather than people, and division of labor is highly specialized. There are many rules and clear limits for work areas and authority. The hierarchy is formalized and clear to all.

Task culture

The primary emphasis is on the actual tasks to be solved. The nature of the tasks determines how one works. For example; in a new high-tech company, the organization is characterized by flexibility, autonomy and creativity. The tasks are challenging, but the employees run the risk of burning themselves out.

Person culture

The organization is egalitarian and the structure is minimal. The growth and development of the individual is regarded as the most important factor. Decisions are made collectively and all information is shared. Person cultures are often non-profit organizations.

Source: Adapted from Cooper and Cartwright (1992) in (Gertsen, et al, 1998)

Power culture has the least personal freedom then Role culture, task culture and personal culture are associated with the most personal freedom. The cultural dimensions of M&A have been studied in various ways, and the choice of cultural concept seems to be fundamental in the process. The majority of the studies that are produced are based on a classic cultural concept which is comparatively stable. Their view is that culture is a system of assumptions, values and norms that could be described objectively. This is in line with Berry's view of acculturation as an adaptation procedure, in which the two companies' controversies are reduced. According to Berry this can happen either through assimilation, integration, rejection or deculturation. Many studies have the focus on finding models that can explain and predict

cultural integration difficulties prior to an M&A in order to adjust their integration strategy accordingly. However, some recent empirical studies suggest, that integration difficulties cannot be analyzed by culture models in advance. These studies also suggest that the management of the integration procedure play a crucial role (Gertsen et al. 1998).

3.3.3 Managing Cultural Differences in M&A with Cultural Fit Analyses

Forstmann (1998) performed a study in which he evaluated whether or not corporate cultural differences can explain problems in the integration phase. He studied a \$1 billion German chemical company acquisition. The acquired company was North American with headquarters in Canada and operations spread out in the U.S, Belgium and France. According to his study, corporate cultural differences can explain integration problems and he asserts that the acquirer can manage the cultural differences that have been determined, to make sure that the likelihood of success is higher (Forstmann, 1998). Forstmann further developed a methodology that managers ought to use in order to successfully integrate the two companies culturally. The corporate cultural strategic and competence fit of the two entities are considered key factors in order to accomplish a successful merger or acquisition. Hence, Forstmann stresses the importance of managers evaluating these issues thoroughly before the integration is planned (Forstmann, 1998). According to most management theories there are three rational ways to handle lack of fit when handling strategy and competence dimensions.

1. *Adaption of cultural differences to the strategy.* The perception that a culture of one or both acquisition partners can in fact be changed is certainly widely held, but highly questionable;
2. *Adaptation of the strategy to the cultural differences.* This would require following the paradigm “structure follows culture”;
3. *No adaption of either strategy or cultural differences.* This third alternative, known as “managing around culture”, tries to circumvent the negative impact of cultural differences by, for example, creating a favorable organizational climate (Forstmann, 1998: 73).

That approach adds a phase where the acquirer performs an analysis of cultural fit and differences prior to the integration phase. There are many researchers claiming that the analysis should be performed before any letter of intent or contract is signed, but they do not show how that analysis could be performed (e.g. Krystek, 1992; Hofstede, 1991). However, as mentioned earlier, there is a problem with trying to evaluate the culture at that stage.

People-based data is usually not available at that stage and the management of the other company is generally more open to an in-depth analysis when contracts are drawn. Forstmann therefore asserts that there is a short window of time where such an analysis should be performed, between the closure of the deal and the integration phase and that the window is usually less than one month long (Forstmann, 1998).

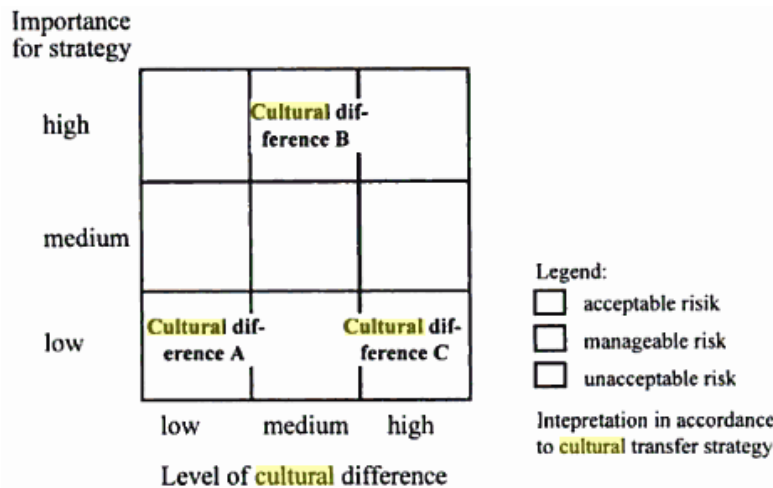
There are different ways to conduct the cultural integration according Forstmann who based the alternatives on theories created by Howard Perlmutter in the late 1960s. The four alternatives presented are the following: Ethnocentrism, Regiocentrism, Polycentrism, Geocentrism. Ethnocentrism refers to a company that prefers a united corporate culture in areas where they do business and therefore need large amount of integration, generally associated with strong centralized decision making. Regiocentrism refers to a company that can be described as multi-ethnocentrism where several integrative cultural zones are allowed by the company that is generally multinational. The Polycentric approach is the most decentralized version in which the company allows all subsidiaries to adapt their own local culture. Geocentrism is a mix since it allows all subsidiaries to participate in the creation of the united corporate culture.

The extent of integration that is necessary will be determined by which alternative the management decides to use. For example, companies that apply an ethnocentric strategy are in need of a more integrative process than a company that applies a polycentric strategy, since they strive to reach a worldwide unified corporate culture (Forstmann, 1998). According to Forstmann, the first step in the integration procedure is therefore the process of getting an understanding of the preferred culture-transfer strategy, which can be any one of the four previously mentioned types. However, most acquirers have not formulated such strategies, which might make it more difficult to produce a cultural integration strategy. When the culture-transfer strategy is established the next step is to evaluate the cultural differences between the companies to be able to make the right implementation of the integration process.

How managers should approach these difficulties are best described in Figure 1 in Appendix A. The probability that there are no significant cultural differences is very rare but in that case they just have to integrate as planned (Forstmann, 1998). If significant cultural differences do exist, the management has to make further decisions concerning the possibility of managing around these issues. The next question that the management needs to evaluate is whether the acquired company has the ability to manage the cultural differences and whether integration is

achievable under the current cultural circumstances, which is an important step of the fit analysis. The matrix that is presented in Figure 2 intends to be used as a tool for managers to determine whether integration will be attainable.

Figure 2: Cultural Fit Analysis: Evaluation of Cultural Differences



Source: Forstmann (1998)

The categories “importance for strategy” and “level of cultural differences” can be divided into low, medium and high. The categories can be considered low if less than 33 per cent, medium above 33 and below 66 percent while high if is above 66 per cent. The attitude towards where in the matrix the company finds it acceptable to be positioned depends on the company’s preferred culture-transfer strategy. For example, a company that has chosen a ethnocentric strategy might find the top three squares as unsustainable, while a company that has chosen a polycentric strategy might find that all squares acceptable except the top one (Forstmann, 1998). If the differences in culture are accepted in the evaluation process and they can “manage around” the differences, the management needs to follow the recommendations in solution B in the flow chart and to keep three aspects in mind:

- The attainment of favorable setting within which the modes of behavior desired become possible;
- The selection of suitable employees who are capable of handling the cultural differences;
- The preparations of selected employees through specific developmental programs (Forstmann, 1998: 78).

However, if the management finds it impossible to attain the goals of integration it might try to change one or both corporate cultures which are described in solution C in the flow chart. There is, however, a great deal of disagreement in academia with regard to the changeability of corporate cultures and the timing of such actions. Lastly, in the worst-case scenario, when none of the cultures can be changed, the management is forced to change the objectives of the integration or the acquisition as a whole (Forstmann, 1998).

4. DaimlerChrysler Case Description

The merger between Daimler-Benz and Chrysler greatly illustrates the politics, procedures and difficulties of a cross-border fusion of such substantial size and of such rare historical occurrence. DaimlerChrysler was the result of the largest industrial merger, at the time, in history. The merger exemplifies the direction in which the automotive industry was moving at the time, and still is today. From a cultural perspective, it offers an important insight into the often highly complicated process of integrating two organizations with the aim of creating a sum greater than its parts. The parties involved will quite quickly learn the devastating effects of underestimating the cultural aspects of a merger or when performed successfully, the advantages. In order to put the events in perspective, the pre-merger situation of each company will be presented along with the nature of the industry at the time, the potential benefits and the conditions of the merger. Focus is put on cross-cultural issues and the initial integration process but the entire DaimlerChrysler marriage will be analyzed, from the first contact in the mid-nineties to the divorce in 2009.

4.1 The Automotive Industry

In order to understand the reasons behind the merger one needs to recognize the circumstances and the environment on the automotive market at the time. The car industry experienced a vast overcapacity that for many companies, created an unsustainable situation. There are a couple of possible outcomes from this situation. The first one is the most obvious; the least competitive companies will not survive, the other option is to produce several mergers that will cut the capacity substantially.

If the automobile industry produced at maximum capacity, the outcome would be 68m cars in 1997. However, in 1996 50m were made, which is about 73 per cent of the capacity. That number can even be lower in parts of the world (50 per cent in Japan). Most analysts agreed that in the next five years, world capacity would reach 80m vehicles a year while the demand would barely increase to 60m at the most. The future looked dark for many car manufacturers

and the solution was to create large conglomerates in order to remain competitive and ultimately avoid bankruptcy (economist.com 1997). That view has later been confirmed by executives at Ford, Chrysler and Daimler and is the main reasons for the M&A (Vlasic et al. 2000).

4.2 Daimler-Benz

In the summer of 1995, Daimler-Benz issued a humiliating profit warning predicting significant losses for the year. When finally quantified, it turned out to be first full year loss for Daimler-Benz since the Second World War and the, at the time, largest loss ever reported by a European company. Over the past ten years, the attempt of creating an integrated technology company had greatly failed, costing Daimler and its shareholders amounts up to DM100 billion (Waller 2001, 84)

Jürgen Schrempp, the newly appointed CEO of Daimler-Benz, knew that in order to survive another year, the company needed to focus on its core business and remove any distractions from what really mattered. Daimler was to be reinvented from the top all the way down in what could be described as a cultural revolution. Keywords were flexibility and shareholder value over tradition and hierarchy. Shareholder value was the new priority (Waller 2001). Schrempp worked from the idea that “in order to change a major organization you need to have a few messages, repeat them day after day and then you have to implement them” and continued “I have to repeat the shareholder value message like a broken record – profit!, profit!, profit!” (Waller 2001: 157).

Quickly, thirty-five business divisions were reduced to twenty- three including more than sixty thousand jobs. Schrempp initiated a merciless restructuring that continued without any glimpse of light until the summer of 1996 when Daimler reported a profit of more than DM 700 million for the first half of the year. By the end of the year, operating profits totaled DM 3.7 billion. By 1997, the share price had doubled and full recovery was in sight. Schrempp felt that time was right to start thinking about expansion - profitable expansion. Given recent company history, diversification was out of the question. Instead, growth was to be achieved through M&A (Waller, 2001)

In the late nineties, the automotive business, a very mature industry, was moving towards consolidation with the number of independent actors rapidly decreasing, a change that would intensify. In 1997 there were eighteen independent car manufacturers in the world compared to twenty- eight in 1980. When analyzing the situation, Schrempp found one obvious partner.

Chrysler had the right attributes and a merger seemed profitable from every perspective. Together, they would form the third largest automotive manufacturer in the world.

Regarding the actual products, the companies were very complementary and a merger could simplify the long-term objectives of both partners while avoiding large and risky investments. The new company would have a very diverse portfolio of products, advanced technology and superior economic strength. Geographically, the fit was also favorable. Daimler had limited ability to grow outside its niche in both North America and Asia, in particular on the commercial vehicle side. Mercedes-Benz held only small parts of the American market where Chrysler was huge. In Europe, Mercedes was strong while Chrysler was weak. Now, both would gain access to each other's markets. However, the Asian presence was still a weakness to both companies and would not change in case of a merger (Waller, 2001).

4.3 Chrysler

The idea of a merger had already been discussed by Chrysler in 1995, when the largest shareholder Kirk Kerkorian tried to make the company private in an unsuccessful leveraged buyout. The management led by Bob Eaton as CEO fought fiercely in order to keep control of the company and stop the privatization plans. In order to prevent Kerkorian's plans, one option was a merger with Mercedes, which at that time was a subsidiary of Daimler. However, this idea was eventually brought to an end, both by Daimler and Chrysler's top management (Vlasic et al. 2000).

At the time, Chrysler was at a crossroad. Internationally, the company was weak. Although sales had increased in the last few years, further international development was not possible to reach without help. At home, one was experiencing a huge success as the leading car company in the United States. However, recent history had been quite turbulent. From the mid eighties, Chrysler had performed an impressive turnaround, moving from an almost miserable product portfolio with out of date design and engineering, to the modern design and diversity of nineties Chrysler, a change largely dependent on the arrival of Bob Lutz who was the vice chairman of Chrysler and the man right under Eaton. Lutz introduced a new approach to design, with strong personality, moving away from established patterns. It was new thinking that also meant huge risk taking, all in order to survive. Lutz knew that in terms of production efficiency and development costs, Chrysler was way behind Japanese competition and initiated a close study of Honda and long-term joint venture partner Mitsubishi (Waller, 2001). Lutz found that current production routines were too inflexible, slow moving and

interdependent and that more team-oriented production with a platform for each type of vehicle was the key solution. Also, studies of the Japanese car manufacturers showed the importance of building long-term relationships with carefully selected suppliers. A new strategy was formulated; by 1996 Chrysler would be the number one American car company and by 2000, the world leading car company (Waller, 2001). At Chrysler, it was obvious that the ongoing consolidation over time was unavoidable. At the same time, organic growth was internationally impossible to achieve. It was time to find the right partner (Waller, 2001).

4.4 The DaimlerChrysler Merger

The corporate world was experiencing a merger mania in 1998. As mentioned earlier, many companies such as Exxon and Mobil, British Petroleum and Amoco, BankAmerica and NationsBank, AT&T and TCI, etc joined each other. However, these mergers looked minor in comparison to the record breaking DaimlerChrysler merger (Vlasic et al. 2000).

Most Mergers fail. “In almost sixty percent of cross-border transactions, the acquiring company does not earn back its cost of capital” was the message given by PricewaterhouseCoopers representatives on a management meeting a few months after the deal was signed. The Daimler strategy team had thought of this and closely studied 100 recent mergers. Their conclusion was that “they don’t actually fail; they just don’t live up to the expectations” (Waller 2001, 244).

Takeovers were usually performed by strong companies acquiring weaker companies. Here however, the conditions were different. Both companies already held strong positions. Hence, proceedings could be careful and precise. Still, both sides knew that a merger of this sort, a transatlantic merger, needed new ways of thinking.

The deal was signed just before midnight on May 6th 1998. When announcing the deal, company representatives followed a well-prepared script consisting of several strong points presented in (Table 2).

Table 2:

<p>This is a great deal – because the transaction will</p> <ul style="list-style-type: none"> • Merge two of the world’s most profitable automotive companies • Be a perfect fit of two leaders in their respective markets • Bring DaimlerChrysler into a leading position in the automotive industry • Position DaimlerChrysler uniquely to exploit new opportunities • Not lead to job cuts <p>The merger makes excellent commercial sense – because</p> <ul style="list-style-type: none"> • It is a deal of two strong companies, a deal for growth not for rationalization • It creates the best portfolio of world-class brands in the industry • It combines the technological, marketing and financial strength of both companies • It offers benefits through sharing of engineering, manufacturing, purchasing and technology know how <p>It will work – because</p> <ul style="list-style-type: none"> • It brings together an outstanding management team with an impressive track record • The partners share a common culture of creating value through innovation, quality and customer satisfaction and a clear commitment to bottom line performance. <p>It will create value through</p> <ul style="list-style-type: none"> • Innovation • Global growth • Job creation and stimulation • Social Responsibility <p>DaimlerChrysler – the creation of a leading global automotive company serving</p> <ul style="list-style-type: none"> • Shareholders – it enhances corporate value • Costumers – premier brands with excellent potential • Employees – new growth opportunities through sales in global markets. (Waller 2001: 178)
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There was a long road from first contact to the actual deal, with several difficulties along the way. The legal aspects of a merger of this kind are extremely complex. It actually took four firms of the best commercial lawyers one month only to work out whether the new company should be German or American. It turned out to be a German AG company (Waller, 2001). However, the end product was a merger of equals with two chairmen running a multi-cultural company. Operations in America and Germany were run by the same officers as before the merger but positions that overlapped were filled simply by Eaton picking the first and Schrempp the second and so on. The result was Schrempp and Eaton as two chairmen, an American as president and a German as the chief financial officer. However, when the deal was made official, Eaton announced his intention to retire when integration was accomplished and to let Schrempp alone run the company as CEO. It resulted in a serious blow to Eaton’s power and influence as people perceived it as a loss of leadership (Vlasic et al. 2000). Eaton was described as a loner, employees found his management style to be cold, rough, almost shy and he was neither a visionary nor a taskmaster. These were attributes people took as signs of weakness. Schrempp, on the other hand, was more authoritarian with a strategic

mastery of people, a natural sense of timing and astonishing business instincts. He could also be very charismatic one minute and intimidating the next, something that only strengthened his leadership (ibid).

4.4.1 A New Decade

In February of 2001, only three years after the merger, Jürgen Schrempp, then DaimlerChrysler CEO presented a 4 billion dollar “turnaround plan” designed to prevent the German-American ship from sinking. At that moment, DaimlerChrysler was leaking. What was hoped to be a perfect merger with seemingly endless potential now looked more like a potential disaster. Evidently, Chrysler was a lot more vulnerable than Daimler had expected (Economist 2001).

There was actually as early as the summer of 1999 major concern for the future of DaimlerChrysler, both from analysts and investors. Uncertainty regarding company plans along with increased German influence as well as the constant concern for the possibility of Chrysler downturn damaging Mercedes Benz caused decreased share value by a third since its peak in January of 1999 (Economist 2001)

To Chrysler, the nineties was a golden decade. Major and successful investments in mainly two niches, minivans and sport utility vehicles, together with the economic boom the American car market enjoyed at the time made Chrysler a dominating actor in the automotive industry. To Daimler, this was the perfect partner. But soon after the merger, things changed. A great deal of internal talent carrying valuable Chrysler specific knowledge left the company, most of these people walking across the street to GM or Ford. At the same time, the car market began to cool off and Chrysler suddenly suffered from quality problems, failed investments in new models, over-optimistic pricing and increased competition. Productivity was way behind competitors such as Toyota or Honda, who could build a car twice as fast as Chrysler. Fixed costs were far too high. Chrysler was basically on a path to bankruptcy. In retrospective, it seems as Daimler not only chose the wrong moment to merge with Chrysler, but that the merger had also suffered from mismanagement (Economist 2001).

Jürgen Schrempp had a dream, an alliance of three major car manufacturers from three different parts of the world, Europe, Asia and North America, together creating a modern and globally present actor in the automotive industry. Buying controlling stake in Mitsubishi Motors in March of 2000 was the last step in turning dream into reality. But only one year later, although Mercedes Benz was still profitable, both Chrysler and Mitsubishi were in

urgent need of restructuring, including the loss of more than a total of 35 000 jobs (Economist 2001). Evidently, Schrempp had taken a huge risk. Chrysler was at the top of the market in 1998 and from there, it was all downhill. Add the culture related difficulties of the integration process and you will find a company in trouble. The fight to save DaimlerChrysler continued through the early and mid zeroes. Daimler left Mitsubishi in November of 2005 and in December, Jürgen Schrempp left, with Dieter Zetsche stepping in as new CEO.

Schrempp had appointed Zetsche (his protégé) chief of the Chrysler division in 2000 with the mission of turning Chrysler around. Zetsche arrived at Detroit headquarters finding a shattered company. As mentioned above, Chrysler was leaking in every department; investments were much too high, more than the amounts of twice the size companies such as General Motors and without actually improving the product line. Fixed costs were far too high and productivity was beyond criticism. Zetsche immediately designed a restructuring plan in order to save Chrysler from bankruptcy. Initially, arriving in Detroit was not easy. Zetsche brought just a few German managers with him but it was a hostile environment and someone quoted Zetsche to be “one of the most hated men in Detroit” at the time. However, the situation quickly changed; while implementing the recovery plan, Zetsche worked hard on improving the relationship between Germans and Americans focusing on visibility and results. He ate lunch in the company cafeteria, parked his car in the employee parking lot and greatly supported local charity organizations and community institutions (Economist 2006)

In early 2002, restructuring started to show results. In the first quarter of the year, Chrysler presented the largest profit within the DaimlerChrysler organization. The same period of the next year Chrysler doubled its profits while reaching the same level in 2004. At the time, Zetsche had earned an impressively strong position in Detroit, both within the company and in the community. After five years of leading the Chrysler division, basically saving the company, Zetsche was brought home to Germany to manage the serious problems of DaimlerChrysler. In Stuttgart, as in Detroit, Zetsche took a cultural approach. Several North American managers were given key positions at Stuttgart headquarters. The distance between Mercedes and Daimler was dealt with basically by moving top Daimler management into one of the old Mercedes factories. The reason was to destroy what Zetsche described as the “atmosphere of them and us” between Daimler-Benz up on the hill and the car business people of Mercedes down at the factory (Economist 2006). It was also to serve as a symbol of the idea of unity and of “one” automotive company.

In late 2006, reports suggested that things actually started to work at DaimlerChrysler. Had Zetsche managed to turn the ship around? Evidently not; only a few months later in February 2007, Daimler announced the possible disposal of Chrysler. Although the previous years had given new hope regarding the future of Chrysler, the situation was problematic. Chrysler quickly began to suffer from high price of petrol and raw materials and at the same time failed in predicting future demand. Things had simply become a lot worse at Chrysler and Daimler wanted to drop out.

In April 2009, Daimler finally ended its relationship with Chrysler. The agreement included Daimler freeing Chrysler of its 1.9 billion dollar debt to the German partner and contributing several hundred million dollars to the Chrysler retirement funds. This was the final agreement of an eleven-year marriage and merger that for years to come will define the difficulties of mergers and acquisitions in the automotive industry (Economist 2009).

4.4.2 Cultural Issues

In one of the first public speeches Schrempp highlighted the awareness of the issue of bringing two different cultures together and he assured that the end result would be a better solution (Vlasic et al. 2000). Although the deal was signed in May of 1998, integration could not start until November the same year. Early on in the integration process, cultural issues were on the agenda and a post merger integration team was formed. It turned out to be a difficult matter. The Germans were eager to show the Americans that they were not plain bureaucrats. Several team-building events were arranged in both countries during the summer of 1998. Management enjoyed racing cars, picking new corporate jets, eating typical German or American food and visiting car museums. Serious integration work did not actually begin until late August when the management met for three days. How are we to tackle the process of integration? What sort of cultural complications will we face? What do we have to do to ensure that this merger is a success? Questions discussed were important and most of all, very sensitive (Waller, 2001).

Chrysler and Daimler reached out to two different customer segments, which implicated different attitudes towards the use of funds. Daimler, which produced Mercedes cars, were used to sparing no expense in order to create a premium brand image. Chrysler on the other hand focused on production of cheaper cars and their organization had a more restricted financial policy. That resulted in a different attitude towards the use of funds in the respective corporate cultures. Another aspect of the attitude towards the use of funds; German executives

where used to five-star hotels and flying corporate jets even for short meetings that could have been held over the phone, whereas the Chrysler employees had considerably more financial restrictions. Daimler wanted to create a coin with the new logo on to be handed out to all employees with the objective of demonstrating a unified feeling. According to Chrysler executives, the coins were much too expensive and the dissatisfaction was clear in Germany (Vlasic, et al., 2000).

Further problems occurred quite early on also in the marketing divisions. Daimler and Chrysler refused to work together on the grounds that both parts would destroy the respective brand with their ways of conducting marketing. The PR departments also had different views on how to work. Chrysler was known for its spontaneity, candor and theatrical style, while Daimler prized preparations and predictability. One example of controversy was when they wrote a copy of the Day One international magazine. The Americans sent a detailed description of Chrysler to Daimler, who returned the combined publications with their section being twice as long, just before they had to print the magazine. The Americans were furious but had to accept it and let it go to press (Vlasic, et al., 2000).

Cultural complications were immediate. In one meeting, Germans and Americans for some reason were asked what they thought of each other. One senior DaimlerChrysler executive stated that “It is unthinkable for a Chrysler car to be built in a Mercedes Benz factory. And for as long as I’m responsible for the Mercedes Benz brand, only over my dead body will a Mercedes be built in a Chrysler factory” (Waller 2001: 161). Waller describes this point of view as typical of the German attitude towards Chrysler engineering, which was a problem that top management tried to work against. Everyone was to work and act in the interest of the company and not from personal agendas. Rüdiger Grube, chief of corporate development and Barry Price from Chrysler, together formulated a few principles regarding the Post Merger Integration (PMI)

- Maintain the underlying business while in transition – don’t allow the distractions of a merger destroy what brought you together in the first place.
- Create a “win win” situation – in a merger of equals, everyone stands to gain from effective integration.
- Speed! Speed! Speed! From now on this would be Grube’s mantra. The faster you move, the more likely you are to succeed.

- Focus on the value drivers – i.e. on the factors that you can identify and control and which lead to the creation of maximum shareholder value in as short a period of time as possible. Don't get distracted by the crap.
- Create a strong culture of personal responsibility – the parties affected should also be participating parties, said Grube. Daimler management board members and Chrysler executive vice presidents would be expected to be directly accountable for the success or failure of PMI projects. (Waller, 2001: 171)

Grube and Price clearly address quite large issues while avoiding or missing out on the smaller but immensely important cultural issues. One must wonder if the potential impact of cross cultural differences to the company was actually considered in the merger preparations (Waller, 2001).

There was disagreement also at the top level concerning cultural issues. For instance, Schrempp was not keen of Chrysler's rules against alcohol and smoking and chose to install a bar and a humidior in his Detroit office. Differences concerning such seemingly trivial matters as humor showed to be enormous. Chrysler had basically abandoned any form of humor within company culture where people had actually been fired because of jokes, while Daimler culture was very loose and allowing regarding humor (Waller, 2001). Also, decision making widely differed between Daimler and Chrysler. For board meetings, the Germans prepared 50 page documents that would be discussed in detail. The Americans preferred to prepare by talking one to one so that very little discussion was necessary (Economist, 1999). Initial tension later resulted in shorter documents and more discussion. Regarding salaries, the difference was huge. Chrysler had a very generous pay system that included share options, a system that was still quite new in Europe at the time. Daimler executives were paid significantly less than Chrysler counterparts from structures that were to be equalized (Waller, 2001).

The Germans made the mistake of expecting all Americans to be of similar business culture as the New Yorkers who were involved in the pre-merger negotiations. New Yorkers tend to be more "European" than mid westerns and often with a different business approach. The Detroit people at Chrysler were very family-oriented and seemingly not willing to sacrifice important family time in favor of long working days or transatlantic travels. In general, the Germans felt that Chrysler people drew a clear line between work and private life and in terms of political correctness, that Chrysler culture was extreme.

On several occasions, seemingly trivial matters led to complicated culture-related misunderstandings. In the spring of 1999, Daimler CEO, Jürgen Schrempp divorced his wife of thirty five years for the priority of the company, something that did not go well with the mid westerns “family first” perspective. On one occasion, a Chrysler secretary chose to report a Daimler executive for sexual harassment as he touched her shoulder while politely asking her to make photocopies. Another example is when a German executive greatly upset an American executive hugging his colleague goodbye after several months of working closely together. Apparently, except for handshakes, physical contact is out of the question between colleagues within Chrysler culture. Another German executive was reported for racial discrimination as he miscalculated the number of chairs required to get everyone a seat in a meeting. One of the persons who ended up without a chair was an African American woman.

Daimler also expected to find what they had heard was a non-hierarchical culture within Chrysler. It turned out to be even more hierarchical than in Daimler headquarters with separate dining rooms for each grade of executives. Still, the Germans were very formal when communicating with each other, always using titles and family names while Chrysler people used their first names. However, Daimler gave in and decided to go the Chrysler way when communicating in English. When German was spoken, communication was to be performed through traditional procedures.

Obviously, there are clear cultural differences between both parties. But differences initially not regarded as directly cultural, tended to transform into cultural issues. The distribution of power among company management is one example. As mentioned earlier, this merger was initially planned to be a merger of equals and not an acquisition, even though neutral observers always considered it to be the Germans acquiring the Americans. Hence, integration, communication and cooperation of the two companies were vital if they were to split the work load, control and power in 50/50. Chrysler CEO, Eaton, gradually grew detached after the announcement, did not contribute and slowly faded into the periphery.

Further changes were noticed on the management board. At meetings, German managers were more dominant while Americans were more passive, with a few exceptions. Eaton basically sat back allowing Schrempp to run the show, which affected the balance of the board. The Americans felt less influential since their proposals tended to be ignored without Eaton’s support. This created a great deal of dissatisfaction among the Chrysler managers and many officers that were considered as cornerstones either quit or had to leave the company. The



merger looked increasingly like an acquisition, the Germans started to take over the company and the board that earlier had been divided equally by Daimler and Chrysler officers, was now dominated by Germans (Vlastic et al. 2000).

5. Analysis

In this part of the thesis, the analytical part, the different parts of the theoretical framework will be discussed, compared and put in relation to the actual process and outcome of the DaimlerChrysler merger. Firstly, we will discuss the potential problems of corporate cultural differences in mergers and acquisitions from a general perspective. Secondly, corporate cultural effects on the outcome of the DaimlerChrysler merger will be analyzed. Lastly, alternative actions that could have been performed in order to more efficiently handle the cultural aspects of the merger will be suggested.

5.1 Potential Problems of Corporate Cultural Differences in Merger and Acquisitions

In the theoretical framework, we clearly show the difficulties of actually defining culture. There are literally hundreds of definitions, many of which are very similar. The notion itself is highly complex and although the importance and impact of culture as a societal force is quite clear, its direct influence on the outcome of a merger or an acquisition is very difficult to analyze.

Over the last thirty years, consolidation has basically shaped the automotive industry, rapidly decreasing the number of independent actors. As a result, there have been a number of major mergers and acquisitions within the industry, many of them between firms of different national origin and with the most diverse corporate cultures.

Naturally, as companies operate in an even more integrated business environment, both domestically and internationally, increased interaction equals increased cultural conflict. During the initial parts of a merger or an acquisition, it is extremely difficult to foresee things both sides would like to know in order to maximize the outcome of the transaction. Will this company be easy to work with? Have we correctly estimated its capabilities and objectives? To any company, these questions should cause great concern.

As mentioned earlier, research shows that a majority of M&A actually do not live up to the expectations. Although the eventual outcome of a merger or acquisition is dependent on several factors, the corporate cultural aspects and integration in particular are essential. The importance of corporate cultural integration generally depends on the type of M&A. Horizontal and vertical M&A usually require more integration, since interaction and organizational change will be necessary in order to enjoy desired synergies (Gertsen et al. 1998).

A potential risk, always present, seems to be high management and employee turnover. Reasons for the high turnover number may differ from case to case, but the underlying factor is the disappointment and dissatisfaction of the counterpart's corporate behavior. Both partners have a long history from which values, routines and procedures have evolved. Employees have for countless hours performed tasks and processes in certain ways. The belief that their way is the right way is deeply rooted and a sudden change can erupt in dissatisfaction and counteractive behavior. Reactions are generally focused against the processes of decision making, level of participation in decision making, structure at meetings, acceptance of power distribution and more value-based issues such as quality, costs orientation, CSR, personnel policy, etc. However, other reasons for dissatisfaction are miscommunication through national languages, company-specific internal languages and differences in coordination.

We have identified three problem areas often in connection with differences in corporate culture in mergers and acquisitions; firstly, the decision process, secondly, the motivating factors and thirdly, the objectives of the parties involved.

The decision process is significant in any form of cooperation. Differences in routines and procedures regarding decision making can create great frustration and increase the distance between parties involved. The decision process very often differs between companies due to such factors as size, nationality and industry. Naturally, smaller firms often handle decision making faster and sometimes more efficiently than larger firms. So when later working within a larger organization, what earlier took days or weeks to decide, can suddenly be processed for months. Naturally, this can create major differences in terms of short term and long term thinking and potentially hurt the company. The procedures of decision making within a company are closely connected to the corporate culture. The decision making basically defines the bureaucratic nature of the company. This is also connected to the sense of "personal freedom" within the organization. From this perspective, it is easy to add several potentially problematic situations. For instance, if decision making is particularly slow or fast, there will be a tendency of rushing into business opportunities or completely missing out on them. Also, if decision making is slow or inefficient, it is likely to work against creativity and flexibility within the company and at the same time scare off internal talent.

What motivates people can greatly differ between cultures. For instance, although employees in most firms want to create a profitable company, some actually tend to care more about

economic compensation. Others tend to be more motivated by power and of the company situation in terms of expansion and position. This was the case in the DaimlerChrysler merger. It should be noted that, at the time, salaries were more equal within Daimler-Benz than in Chrysler. The American top managers earned significantly more than German top managers, but managers in lower positions tended to earn more than their American counterparts.

Although it was eventually to be dealt with, Waller (2001) described these differences to be of motivational character. The Germans simply had a different approach to both company and career. Many expected lifelong commitment to Daimler-Benz and although economic compensation is of importance, the overall success of the company along with the personal career within the organization is even more influential. The Americans were much more family oriented and unwilling to give up valuable family time. Whether this behavior can be traced to national culture is not discussed in this thesis. Still, the potential conflicts deriving from differences in such an important issue as what actually motivates people within the organization can be immensely damaging to a company. When motivational factors differ, it is likely to believe that ambitions also differ and when ambitions differ, creating a unified organization suddenly becomes very difficult.

When engaging in a merger, which often means a split responsibility, it is very important to synchronize the objectives of both parties. As objectives, we refer not only to financial objectives also to objectives in terms of organizational objectives, social responsibility, identity, values and ethics. Initially, this should not present any significant problem. Both firms normally agree on the basic reasons behind the merger and its potential benefits. But objectives can change over time. As companies often, to some extent, remain independent also in mergers and acquisitions, the situation of each partner at a given time might result in different views of what is optimal in terms of future activities. Financial difficulties or possible prospects in a new market for one part might not be the top priority to the other part. At the same time, sudden strategic or operational changes might conflict with certain core values of one part.

In an acquisition, this problem might be dealt with simply by the dominating part steering the ship. However, dealing with such a problem in a merger of equals, is a different matter. Shortly after the merger, DaimlerChrysler found itself in a situation where Daimler was doing well but where Chrysler was bleeding heavily. Although the Chrysler situation was a priority

to the company as a whole, the situation definitely contributed to weakening the view of DaimlerChrysler as a unit, both internally and externally.

5.2 Corporate Cultural Effects on the DaimlerChrysler Merger

The DaimlerChrysler merger has become one of the most highlighted mergers ever in the context of failure. Furthermore, underlying factors such as cultural issues have been raised as one reason for the disappointing end result. Looking at Germany and the U.S from an historical perspective, this might not have been the ideal composition, but top management defied past controversies and viewed this cooperation as a renaissance of the former relationship between two great economies.

Cultural differences were a fact right from the start, even before any contract was signed. Both companies are old and incredibly well associated with their respective countries and national history. Integration had not even started when lawyers already argued about the importance of keeping the company German and American respectively. Daimler and Chrysler were terrified that the identity of the companies would be damaged if they adapted and became part of a foreign business entity. Eventually, Chrysler accepted the fact that the deal would be off if they did not settle with a German AG (the German term for limited company or corporation). However, this might have been a mistake for Chrysler since the perception was that the merger of equals was actually an acquisition conducted by Daimler. Another contributing factor was Chrysler's settlement with the name. That decision was taken as a warning by the Chrysler employees, who were trying to hold on to their corporate culture.

The merger was of a horizontal type; both companies were of the same production stage and in the same sector, the initiatives were based on creation of synergy and large scale effects which require a vast amount of cultural integration and organizational change (Gertsen et al. 1998) (Larsson, 1990). Areas affected by the integration are typically finance, personnel policy, marketing and joint production and offices (Gertsen et al. 1998). Accordingly, all areas in the DaimlerChrysler case were involved in some kind of cultural clash. The Germans had a very bureaucratic organization; decisions were taken after rigorous analyses and several meetings with all managers. The Americans had a faster decision-making process with a philosophy favoring quick decisions. The most obvious differences in corporate culture had evolved from their strategies. Daimler-Benz, which produced Mercedes cars, was used to sparing no expenses in order to create a premium brand image. Chrysler, on the other hand,

focused on production of cheaper cars and preferred a more restricted financial policy. Their vastly different strategies had a large impact on the integration, especially on a financial level.

The differing strategies lead to further implications, this time in terms of quality. The Chrysler managers had earlier suggested that shared platforms for the cars would be a major cost saver, which to Mercedes, was completely out of the question as it would dilute its brand.

Furthermore, Chrysler management wanted to start producing cars in Daimlers European joint production facilities in order to share costs and at the same time avoid the cost of a new production site. The German executive in charge of the operations refused to have Chrysler cars built there even if assembly was separated from each other, on different production lines and by different employees. He claimed quality would suffer and that the Mercedes brand would be harmed in the end, even though the Chrysler cars, at that time, received higher quality ratings than Mercedes.

Problems occurred quite early on also in the marketing divisions. Daimler and Chrysler refused to work together claiming that both parts would destroy the respective brand with their ways of conducting marketing. One of the Chrysler managers claimed that the Germans looked down on them since they worked with more upscale luxury cars. The managers involved had many heated arguments regarding the subject and collaboration was out of the question, which led to higher costs since they had to keep two sets of marketing departments. Similar difficulties was experienced at the respective PR departments, they had totally different views on how to work with PR. Chrysler was known for its spontaneity, candor and theatrical style, while Daimler prized preparations and predictability. The two companies, which merged into one, were more occupied with keeping their identity and corporate culture apart than to cooperate and work towards the initial merger objectives.

Schrempp and Eaton were well aware of the cultural differences before the merger; however, had they understood the consequences of such seemingly trivial issues, the outcome of the investigation prior to the merger might have been other. Insignificant issues such as smoking in offices, alcohol when working, political correctness, humor, how to greet each other and physical contact, formal communication etc., caused a great deal of controversies and contributed to the development of a negative relationship.

DaimlerChrysler had failed with its post- merger integration, and management turnover on the Chrysler side was inevitable, which in our theory section is highlighted as a side effect that is a reoccurring problem during the integration phase. Many managers felt they did not want to

be part of an organization that had changed this much; others did not convert to the Daimler way, and were instantly regarded as misfits. What neither Eaton nor Schrempp had realized was that the reasons for Chrysler's success to a large extent, was the work of a few executives. Although Eaton was Chrysler CEO for a long time, the company was basically run by Bob Lutz and a team of executives. Losing employees in possession of important company specific knowledge hit Chrysler enormously. Most likely, this is one of the main reasons behind the sudden downturn.

The gradual substitution of the Chrysler management had clear connections with the subtle implementation of the Daimler culture as a more united corporate culture. In this case, as Berry (1980) describes acculturation, Daimler seemed to try and push out the Chrysler culture and force some kind of assimilation when integration clearly did not work. Obviously, this did not end successfully as assimilation is best suited when the acquired firm feels no need to keep its culture and finds the acquiring firm's culture interesting (Malekzadeh and Nahavandi). The Americans opposed the way in which Daimler tried to force their corporate culture on them since they had no incentives to adapt. Regarding the situation at DaimlerChrysler, Daimler's culture did not work at Chrysler since their way of doing business did not work at a company focused on a completely different customer segment. Cooperation was out of the question for both companies as long as it was not in line with the way they did business and if it could harm their corporate culture. With that in mind we believe that forcing corporate culture on to other firms is extremely hard and may only work under voluntary circumstances. Moreover, the integration strategy used failed miserably and the cultural differences made the business plan unsustainable and was in turn one of the main reasons for the eventual sale of Chrysler.

5.3 Actions to minimize culture-related difficulties within DaimlerChrysler

As described in the DaimlerChrysler case description and in the previous section, the merger suffered from cultural conflict early on. Although the problem was recognized, we believe that it was also underestimated. In this part of the analysis, we will present a number of actions that could have simplified the integration process and possibly improved the internal relations at an earlier stage. Whether this would have an effect on the eventual outcome of the merger is hard to tell, but it could definitely have eased the suffering the two companies faced during their eleven-year marriage.

The DaimlerChrysler merger was, as mentioned in a previous section, of a horizontal character, which requires a certain amount of integration and change. However, as both Cartwright & Cooper (1998) and Malekzadeh & Nahavandi (1988) claim, two corporate cultures do not necessarily have to be very similar in order to be successful, but they have to be able to cooperate. On the other hand, distance between the two cultures is to some extent central since it usually means that firms cooperate better (Cartwright & Cooper 1998). Evidently, DaimlerChrysler had severe problems cooperating cross-culturally and the cultural distance may be the reason. The case section features several events where cooperation difficulties are clearly present. According to Cartwright & Cooper (1998), this could have been avoided had negotiators prior to the merger conducted a cultural fit analysis in order to see whether personal freedom was affected negatively. Daimler could best be described as a “role culture” when using Cartwright & Cooper’s (1992) description of different company culture and Chrysler as a “task culture”. That interpretation would lead to the conclusion that employees at Chrysler would have received less personal freedom according to Cartwright & Cooper’s (1992), which could be one explanation to the dissatisfaction among the Americans regarding Daimler’s corporate culture.

Prior to the merger Daimler and Chrysler both focused on financial analysis, possible areas of collaboration and finding synergies, but little or no attention was aimed at the corporate cultural differences and fit. As mentioned in the theory section, prior merger analyses can be hard to conduct but that does not mean that it is unnecessary to look at culture. Evaluation of corporate cultural strategy and competence fit are very important according to Forstmann (1998) if the cultural integration of an M&A is to be considered as successful. Looking at Forstmann’s theory’s lack of fit handling strategy (1998), the first and second proposals are out of the question since it would interfere with the respective firm’s different overall strategy and business plan. For example, neither Daimler nor Chrysler would change their corporate culture and they are even less likely to change their strategies. It is more likely that they were determined to manage around culture, but that would require a very successful integration plan which they evidently failed to perform during the merger. This would require an analysis of the cultural fit prior to the integration phase. In this case, a regiocentric approach would probably be suitable since it does not require the same amount of integration processes as an ethnocentric alternative. Daimler seems to have tried to implement an ethnocentric approach in the case that quite simply failed. Hence, the regiocentric alternative would be more suitable, which would allow different strategies and corporate cultures, something which

seems to be important to both Daimler and Chrysler. Given that DaimlerChrysler was able to manage around culture if a successful integration were conducted, Forstmann (1998) suggests a utilization of the capabilities in order to integrate successfully. Provided that integration is planned, further suggestions that suitable employees capable of cross-cultural management should be selected in order to create favorable settings in which a desired environment can be developed.

The DaimlerChrysler case raises serious questions whether integration of corporate culture is possible or not. However, one can assume that some form of cultural prior merger analysis, could have given some indications as to whether a merger was possible. The lack of cultural analyses prior to the merger is in fact surprising, since Schrempp in one of his first speeches talked about the awareness of cultural differences. Claiming to be aware of the problem without taking any actions to evaluate the difference can be considered as ignorance in M&A of this magnitude.

We believe that an analysis prior to the merger would give a better view on the corporate cultural differences; the analysis could serve as a foundation when assessing the possibilities of a merger. A further question that could be raised is whether these analyses should be performed in collaboration, since data of this kind can be very hard to attain in the planning stages (Forstmann, 1998). Daimler and Chrysler need answers on whether or not they can manage around the cultural differences, if this merger is doomed to fail, and if not, how should integration be conducted in order to be as successful as possible. We believe that the top management at both firms was blinded by all the potential benefits and synergy and that cultural difference and its potential disadvantages were basically neglected.

6. Conclusions

This part of the thesis, the last chapter, will simply focus on answering the research question and the two sub questions:

From a corporate cultural perspective, what are the potential problems of cultural differences in merger and acquisitions?

Although the potential problems of corporate cultural differences in mergers and acquisitions are most diverse and difficult to define, we have identified three areas of significant importance: Decision making, objectives and motivational factors.

In our theoretical framework, as in the DaimlerChrysler case description, decision making is shown to be a natural part of corporate culture. Decision making describes and sometimes even defines the nature of an organization. Naturally, when two companies come together, both with well-developed corporate cultures, collision might be an appropriate way to describe such a situation. Few things are as frustrating as a slow, bureaucratic decision process. The opposite situation, when decisions are made fast and with huge risk taking, can be just as frustrating when it is not a part of corporate culture and normal procedures within the company.

The second area, the motivational factors, is essential for the outcome of a merger. What actually drives the parties involved? What motivates people within an organization is greatly connected to the culture. Sometimes, employment in a company is regarded as a lifelong commitment. Perspectives tend to be long term and the well-being and expansion of the firm is always a priority, sometimes more important than family and private life. Such a culture would greatly conflict with a family oriented culture where economic compensation is the driving motivator and where one is not willing to sacrifice important family time. In such a conflict situation lies potential disaster.

Objectives concern not only financial or strategic objectives, but organizational objectives and the basic identity of the company. Although companies usually agree during the initial parts of a merger, things can change over time. There are potential disagreements in future strategic objectives but also in ethical standpoints, social responsibility and company identity. These factors are strongly linked to the basic values of the company, values that in turn influence the corporate culture.

In the DaimlerChrysler case, what effects did the corporate cultural differences have on the outcome of the merger?

It is likely that the eventual outcome of the merger that ended with the separation of Daimler and Chrysler was inevitable. Evidently, Daimler chose to merge with Chrysler at the wrong moment in time and overestimated the potential of such a transaction. But not only was Chrysler's situation overestimated, both firms also managed to underestimate the difficulties in relation to differences in corporate culture.

A cultural clash was instant in basically all parts of the organization, from top management and down. Cultural differences defined problems that concerned decision making, question of nationality, financial restrictions and more trivial issues such as alcohol and smoking, humor and physical contact. Corporate cultural differences, in combination with a weak integration process, quite rapidly caused the loss of a substantial number of skilled Chrysler people holding important company specific knowledge.

We believe that the downturn that occurred shortly after the merger was partly caused by the sudden loss of talent and qualified leadership within Chrysler. Furthermore, it is our belief that corporate cultural differences caused numerous conflicts throughout DaimlerChrysler and that most likely weakened the company in terms of flexibility, internal cooperation and objectives. Naturally, these are areas essential to the well-being of any company.

What could have been done to minimize culture-related difficulties within DaimlerChrysler prior to the merger?

Cultural issues are difficult to deal with, but we believe that an analysis prior to the merger would have helped Daimler and Chrysler in the assessment of benefits and risk. In order to realize the synergy effects, substantial amount of integration is required since the merger was of a horizontal type. The corporate cultures do not necessarily have to be very similar in order to succeed. However, cooperation is important and in this case, something DaimlerChrysler failed to deliver. Furthermore, an evaluation of the corporate cultural fit would contribute to a better understanding, which is important when conducting an integration plan. Daimler and Chrysler have vastly differing cultures and strategies and neither of the companies seemed likely to abandon their corporate cultures. Managing around culture seems to be the only possibility, but it requires a thorough integration plan. We believe that the management in both companies was occupied with all the benefits of a merger and neglected the corporate-

cultural differences. Furthermore, an analysis prior to the merger could have provided management with information in order to realize the cultural differences and difficulties. That kind of information would be very valuable and helpful when evaluating the potential outcome of a merger.

6.1 Suggestion for further research

As we conclude there to be certain functions within merging companies that tend to be particularly affected by corporate cultural differences, we suggest a deeper analysis of these problem areas. Decision making, company objectives and motivational factors are areas of special interest to us. Also, we believe that a closer look at the integration process of a number of M&A, both successful and unsuccessful, could shed new light on such a highly complex transaction. Furthermore, we recommend research on M&A in other industries, in order to establish whether similar conclusions can be drawn.

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Appendix A

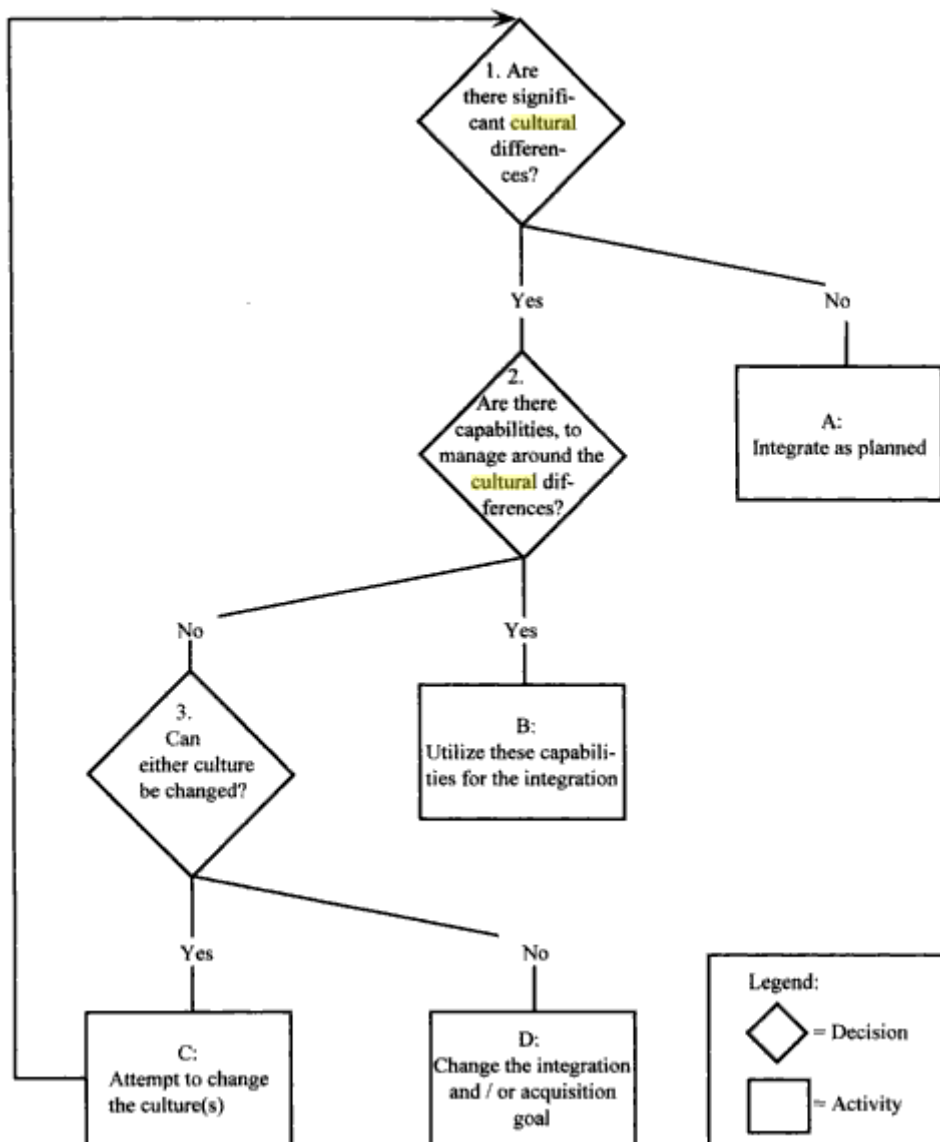


Figure 1: Flow chart for the Management of Cultural Differences in M&A

Source: Forstmann (1998)