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The DaimlerChrysler Mitsubishi merger: a study in failure

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Abstract: This article focuses on the DaimlerChrysler/Mitsubishi merger of 2000 and discusses the failed attempt by a European-American multinational firm to break into the Asian market, a region where previously it had an extremely limited presence. Having completed its 1998 merger with the US-based Chrysler Corporation, the newly formed DaimlerChrysler group turned its attention to the Asian market in 2000 in an attempt to become a truly global competitor. Partnership with the Japanese motor firm offered the possibility of economies of scale and scope, in particular in the sub-compact car market to enable DaimlerChrysler to become a full-scale producer. However, within four years the dream of large scale trans-national production was over. The failure to integrate with the Japanese company and the subsequent decision to cut Mitsubishi Motors adrift led to the dismissal of the DaimlerChrysler CEO Jürgen Schrempp. This paper will focus on outlining the motives behind the merger, why it failed, and why the Board of Daimler-Benz decided to end the relationship and extricate itself from Mitsubishi's problems.

Keywords: globalisation mergers; consolidation; international markets; Jürgen Schrempp; demerger; market exit.

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1 Introduction

Having completed its 1998 merger with the US-based Chrysler Corporation, the newly formed DaimlerChrysler group turned its attention to the Asian market in 2000 and merged with the Mitsubishi Motor Corporation of Japan in an attempt to become a global competitor in an increasingly competitive market. Such a partnership offered the possibilities of economies of scale and scope particularly in the sub-compact car market where Daimler was weak. Important, too, was DaimlerChrysler's aim to gain greater access to the wider Asian market and produce a wide range of vehicles using the expertise of their European, US and Asian arms. Within four years, however, the dream of trans-national production on the scale of Ford, General Motors (GM) and Toyota had fallen apart. Stock value had imploded, profits were dwindling and the group was heavily in debt. The failure to integrate with the Japanese company and the subsequent decision to cut Mitsubishi Motors adrift contributed heavily to the departure of the DaimlerChrysler CEO Jürgen Schrempp.

Why then did DaimlerChrysler's gambit prove unsuccessful? What factors lead to the downturn in profitability and the collapse of the partnership? This case study assesses the DaimlerChrysler-Mitsubishi merger of 2000, outlining the motives behind the acquisition from both a European and Asian corporate perspective. It attempts to place the problems faced by the group after the merger in a global context. It also demonstrates the consequences of the failure of Daimler-Benz's management to deal effectively with the twin difficulties of trying to make both Chrysler and Mitsubishi profitable. In turn this drained Daimler's managerial resource base to the extent that the very existence of Daimler Benz seemed threatened and ultimately led to the Japanese firm being cut adrift, heralding the end of Schrempp's reign in Stuttgart

2 Literature review

A great deal has been expounded on mergers in manufacturing industry and the automotive industry is no exception. In discussing mergers two key elements stand out: the rationale behind mergers and the pre-and post-merger strategies of the acquiring firm. Beginning with the first, it is generally agreed that the ultimate objective of a merger – or in some cases a take-over – is survival in an increasingly competitive and yet fragmenting global economy as firms seek to expand in size and scale to ensure their future.

It could be argued that mergers and acquisitions have become a key method of firm growth and expansion as it is cheaper and quicker than organic growth. Mergers differ from acquisitions in so far as they are the product of mutual consent between the respective firms and often simply involve an exchange of shares. Acquisition involves one firm taking over another following a successful bid for its shares. Such a move, though often viewed as hostile, can in some cases be welcomed by troubled firms seeking rescue to from impending failure (Capron, 1999).

There are different types of mergers: vertical, horizontal, lateral and conglomerate. Of these the only one of direct relevance to the discussion is the second as all the companies under immediate scrutiny were at the same stage of production, namely final automotive assembly. The attractions of horizontal mergers, whether offensive or defensive, are manifold. Firms may seek to acquire access to products and markets/segments through the elimination of competitors; they may also desire access to new or different

technologies, skills, distribution channels and so increase their economies of scale, scope and competitive power through increasing synergies, especially in times of increasing industrial consolidation to enable them to fend off potential predators. In other words, the key rationale fostering merger activity focuses primarily on strategic issues (Graebner and Eisenhardt, 2004).

Mergers and takeovers have not by any means proved a panacea for solving industrial problems as many fail to achieve the goals originally envisaged (Cartwright and Shoenberg, 2006). Often the expected gains from expected synergies in finance, technology, administration and research and development fail to emerge and share prices languish below what they were at the time of the original merger for a number of years. As Capron (1999), argues, it is probably easier to achieve synergies in marketing than in innovatory capabilities in manufacturing and production due to products being at different stages in the development cycles as Ford found in trying to manage its Premier Automotive Group. Indeed it might take as long as a decade or more for real synergies and benefits to emerge fully (Donnelly and Morris, 2003).

As history has shown, the merger process is often neither simple nor straightforward. Howell (1970), however, advocates that there are three key stages: target identification and selection; negotiation; and integration. At the pre-merger phase, care must be exercised over the choice of partner in terms of organisational fit and, if a merger is to be championed, then it must involve senior management and possibly key operational managers, whether or not outside consultants/advisors are used, as operational managers might well be better aware of the more mundane issues that might arise than professional consultants. Additionally, a period of 'courtship' or 'getting to know you' as a demonstration of respect might help firms to assess each other's capabilities. This worked particularly well for Renault-Nissan, but failed for Renault-Volvo in the early 1990s when, after a two-year period of courtship, the Swedes called off the marriage (Donnelly et al., 2004). Bound up with this is an evaluation of each firm's strengths and weaknesses not just in terms of products and capabilities but also of the management team of the firm to be inherited. This can help an acquirer to arrive at a decision on what price to pay rather than offer a premium price as Ford paid for Jaguar in an attempt to close the deal quickly and fend off a possible rival bid from GM. Moreover, courtship can often assist in clarifying how much investment might be required to improve a weaker firm as the amount of investment needed might be underestimated and vitiate any post-merger strategy (Gomes et al., 2007).

Of the two key phases, post-merger implementation strategy is the most difficult to operate. No two mergers are alike and so implementation strategies vary accordingly, but in theory should reflect the rationale behind the merger (Mitleton-Kelly, 2004). In mergers enacted purely for financial reasons, it is likely that the firm acquired will be left with a high degree of autonomy, but where there is the necessity to achieve gains from manufacturing then a significant degree of integration is essential.

The ultimate responsibility for implementing post merger strategy lies with the senior management of the acquiring firm, who have three choices: motivate the existing management team, bring in an entirely new team or create a new management team drawn from both firms. Whichever method is adopted it is essential that team members play complementary roles to achieve change whether this be in culture, behavioural patterns, human resource management practices, operating procedures and so forth. This is vital if at the early stages decisions on plant closures, redundancies and new

relationships are in the offing. In other words what is to be done should be effected quickly with clear communication and without ambiguity.

It is at this juncture that decisive leadership is essential, because as Pritchet et al. (1996) argue, failure in post merger strategy implementation often leads to stress and anxiety among the work force with key and talented figures in the management structure leaving for other jobs and replacing these people may prove expensive. Instead, key personnel should be offered attractive reward packages to ensure that they remain with the firm (Aslinger and Copeland, 1996). Finally, there are often cultural difficulties to be resolved and again this is down to the quality of leadership. Senior management must show respect and sensitivity towards genuine differences and cultural practices and try to avoid anything that might be construed as cultural imperialism by paying close attention to legal systems, symbols and social norms (Ghosn, 2002).

3 The DaimlerChrysler Mitsubishi merger

Any understanding of the above merger needs to be contextualised within the major trends in merger and consolidation that occurred in the global automotive industry from the late 1980s onwards. In the search for a global presence, international cross border mergers were a key feature of the major automotive companies. Additionally, as markets became more competitive, consumers, who were increasingly both financially and information rich, sought an increasing variety of vehicles to fit in with their lifestyles. In consequence markets fragmented and this was aided by the advent of flexible production methods which encouraged manufacturers to produce a variety of vehicles to meet ever growing and diversified demand patterns through economies of scale and scope.

As a result the major firms searched for a presence not just in all major geographic markets, but in each market segment from small volume models to their luxury counterparts. Achieving this type of growth presented a choice: organic growth or growth by acquisition and merger. The former, which was pursued by Toyota when it created Lexus as a separate brand was slow and expensive, whereas the latter offered a cheaper and quicker option. This pattern can be illustrated easily in the series of acquisitions made by Ford, Volkswagen and GM. In the light of this growing trend Daimler-Benz decided to follow suit by merging with Chrysler of America in 1998 and two years later with Mitsubishi of Japan to avoid the possibility of becoming vulnerable to possible predators (Dicken, 2007; Morris and Donnelly, 2006).

After five financially troubled years of partnership DaimlerChrysler finally relinquished its remaining shares in the Mitsubishi Motor Corporation on 11 November 2005. In so doing, it effectively ended the company's ambition to create a truly global car company. The eventual collapse was not unexpected. At the time of the merger contemporary analysts had expressed their misgivings, remaining undecided whether the move was "shrewd or desperate" (Priddle, 2000). Regardless of optimistic views expressed at the time by DaimlerChrysler, the venture proved a failure. It is primarily for these reasons that this article explores the logic behind the merger in the first place, the leadership role played by Schrempp and ultimately explaining why the merger failed.

Schrempp's rise from the position of mechanic at a Mercedes Branch in Southern Germany to the head of Europe's largest industrial enterprise is already well documented and need not be recounted here (see Grässlin, 2000). In May 1995 Schrempp assumed leadership of Daimler-Benz from Edzard Reuter and inherited a firm which was highly

diversified, but poorly integrated and afflicted by large, spiralling debts. A period of restructuring, involving the sale of non-core businesses such as the firm's aircraft division, was overseen by Schrempp, and culminated in 1998 with the decision to complete a merger with the US-based Chrysler Corporation. The deal, completed in May 1998, was Schrempp's brainchild and was in keeping with his desire to turn Daimler-Benz into a global brand name by initially gaining a foothold in the North American market. In a \$38 billion stock deal Chrysler's shareholders received DaimlerChrysler stock at a rate of 0.6235 per share (approximately 42% of the company), while Daimler-Benz's shareholders received DaimlerChrysler shares at a rate of one-to-one and a bonus of .005 of a share per share (*Week in Germany*, 1998).¹

Though mooted as a merger of equals with a good product/market strategic fit, the truth was that from the beginning the Germans were the dominant force in the new entity. For example, the stock valuation of Daimler-Benz at almost twice that of Chrysler demonstrated the superior partner status of the German company. Moreover, the decision to locate the headquarters of the new group in Germany and the speedy marginalisation of the Chrysler chairman, Robert Eaton, only served to underline this point. The Americans soon realised that they were regarded as the junior partner. The driving force behind the new company would instead be the Daimler-Benz chairman, Jürgen Schrempp (Gomes et al., 2010 forthcoming).

DaimlerChrysler was now the world's third largest automaker, trailing only GM and Ford in output. Their respective products were for the most part not in direct competition, but were complementary to each other, giving the firm a model in virtually every product segment and in the key European and North American markets, Chrysler would concentrate on the volume market and Daimler on the luxury. The combined DaimlerChrysler work force numbered approximately 428,000, and was expected to produce 4.4 million vehicles per annum (*Business Week*, 1999). Yet, Schrempp's ambitions for the new DaimlerChrysler group did not end here. Specifically, gaining a foothold in the Asian market now became a priority. Without any internal opposition and enjoying the support of his board, Schrempp was able to pursue an acquisition policy to build a worldwide presence in the automotive market.

4 Towards a global brand; DaimlerChrysler and the Asian market

Penetration of the Asian market predated Schrempp's leadership of Daimler-Benz. In the mid 1990s Daimler's board of management had expressed its aspirations for expansion into China, Japan and other Asian countries. It was envisaged that by 2005 Daimler sales would rise to \$21 billion dollars in the region, but it was recognised that this would be extremely difficult without taking over or forming a strategic alliance with an existing Asian firm as Ford had done with Mazda and GM with Isuzu (Grässlin, 2000). In 1999 Schrempp openly speculated that DaimlerChrysler's 1.3% of the Asian market would rise to 10%, but did not offer a time-line on when this might happen (Ewing et al., 1999).

The horizontal acquisition of an Asian-based firm by DaimlerChrysler offered the corporation definite advantages such as: the possibility of achieving a global market presence; access to new markets or segments; the possession of an established brand name which would facilitate deeper penetration of Far Eastern markets while at the same time raising Mitsubishi's profile in Europe. Envisaged, too, was cooperation in technologies leading to new models and cost reductions through synergies and greater

economies of scale arising from shared assets (Paul, 2008). However, it should be stressed that perhaps the lure of new technologies, techniques and processes, as well as the benefit of even greater economies of scale and scope can often make the most cautious and conservative of companies almost reckless. In the case of DaimlerChrysler the temptation of achieving a market share in the Asian arena may have caused it to over-extend itself in its dealings with Mitsubishi Motors and less than diligent in its evaluation of the target company at a time when many of the difficulties in fusing Mercedes and Chrysler had yet to be resolved.

The first move toward a business partnership with Mitsubishi had occurred under the leadership of Schrempf's immediate predecessor, Werner Reuter, who had begun a series of negotiations with Mitsubishi Motor Corporation aimed at forging a closer alliance between the two companies. However, by the mid 90s the Japanese market had entered recession as automobile sales generally in the Far East fell by 7%, discouraging Daimler from becoming further embroiled (Grässlin, 2000).

The attraction of merging with Mitsubishi Motors lay not only in market penetration, but in the designing and development of medium sized and small car technologies that would assist Daimler in an area where its own skills and expertise were weak, ably illustrated by the early days of the Smart car, for example. The original concept – a small, cheap, lightweight sub-compact car had proved an unpopular product and initial sales disappointed. By 1999 DaimlerChrysler were looking to find a partner to provide expertise in this type of small car technology and a new platform that would allow the car to be revamped (Jennings, 1999). In this respect Mitsubishi's knowledge in the field of development, production and distribution of passenger cars and light commercial vehicles made partnership with the Japanese firm even more attractive (Schmid, 2000). The remaining question is why were the Japanese open to DaimlerChrysler's overtures.

5 The Mitsubishi Motors Corporation

Mitsubishi's involvement in the automotive industry dates back as far as 1917, when Mitsubishi Shipbuilding Co. Ltd. first introduced the Mitsubishi Model A. However it was not until the post-Second World War years, after the Mitsubishi Heavy Industries conglomerate was divided into three regional companies by the occupying allied forces, that major strides in motor vehicle development were made. The growth in commercial vehicles and family motoring meant the company would enjoy particular success in the sub-compact market with the Minica and Colt models. Following the success of the Mitsubishi Galant in 1969 the company decided to create a single operation focusing solely on the automotive industry under the name of Mitsubishi Motors in 1970. Success in the domestic market led to a focus on exports and forging alliances with foreign firms such as Chrysler which purchased 15% of the Mitsubishi Motor Corporation in 1971.

Chrysler now began selling Galants in the USA under the title of Dodge Colt. The net result for Mitsubishi Motors was to increase annual motor production beyond 250,000 vehicles per annum. This alliance lasted until the late 1980s when growing competition saw relations become strained between the two companies. Despite this tension, cooperation continued until 1993 when in a mutual agreement Chrysler divested itself of its Mitsubishi shares. The companies, however, retained close links and it was these that were subsequently exploited by the DaimlerChrysler group when the merger with Japanese company was first mooted (Schmid, 2001).

That the Mitsubishi Motors Corporation would prove receptive to the DaimlerChrysler overtures by the end of the millennium can largely be explained by the economic recession in South-East Asian from the middle of the 1990s onwards. The downturn in the Asian market was felt by other Japanese automotive firms such as Toyota and Honda (Toyo Keizai, 2000). Their losses, however, were offset by their significant presence in foreign markets. Mitsubishi, in comparison, focused to a greater extent on Asian markets and suffered in consequence. In 1997 the company posted a debt of Y1.7 trillion yen (\$14.2 bn), the worst losses in its history, and was forced to close indefinitely its Thai truck plant, which normally produced 8,700 vehicles annually. A severe restructuring plan aimed at cutting costs by Y350 billion yen (\$3bn) as well as trimming the workforce by 1,400 workers, failed to arrest the slide and the company suffered a net loss of Y101,846 million yen (\$855 mn) in March 1998 (Mitsubishi Motors, 1998).

It became clear that the only way for Mitsubishi to survive the deepening economic recession and ensure its future was either to seek out new markets abroad or forge a relationship with a foreign partner. Of the two options, the latter was considered the more feasible in the short term. It was suggested that the company offer itself as a take-over target, but this was rejected by company chairman, Katsuhio Kawaose, who preferred to see the company as an equal to others rather than one requiring rescue. In this context, and despite the enormous losses, the possibility of a tie-up with Mitsubishi Motors made good business sense from the perspective of a Western investor like DaimlerChrysler as it pushed open the doors to the Far East even further with an established and respected Japanese firm (Nikkei, 1998; Diamond 2000).

What was significant was that while the Japanese were posting heavy losses, sales in the US market proved relatively buoyant and it may well have been this factor, along with the relatively close relations with Chrysler that encouraged DaimlerChrysler to purchase a 34% stake (\$2.1 billion) in the Japanese firm in May 2000. The cost though was offset by the sale of a 50.1% stake in Debis Systemhaus GmbH to Deutsche Telekom AG. Yet the deal still represented a risk to Daimler-Chrysler so soon after their recent merger, Chrysler's operating losses of €1.1 million at the start of the Millennium and the subsequent slow pace of inter-company restructuring and integration due to serious tension created by cultural and behavioural differences. Indeed, this latter fact caused several Daimler Board members to harbour misgivings about investing in Mitsubishi, seeing it as too much of a potential risk due to its secretive culture and the derogatory attitude exhibited by some management cadres towards female employees, which on occasions spilled over into sexual harassment (Wilmsen, 1998). However, in explaining the strategic rationale for the new relationship, board member Professor Juergen Hubbert said:

“We have the product for all worldwide markets, in all worldwide segments, if we do it right. Then we can build a portfolio of products from entry to upper luxury. The capacity they have in Asia, combined with some of the Koreans, in whom they have a stake, and (Malaysia's) Proton, this offers us a lot of opportunities if we do things right.” (Eisenstein, 2005)

While Hubbert accepted that the takeover of Mitsubishi was not without its challenges, the possibility of creating a global brand remained a tempting prize, particularly with potential of acquiring small car technology and the lucrative markets this would open. Indeed, to augment this, Daimler Chrysler also took a 10% interest in Hyundai,

Mitsubishi's Korean partner, with a view towards developing small trucks and cars. However, almost immediately the new enterprise was put to the test even before any implementation strategy could begin.

6 From merger to demerger

The merger between DaimlerChrysler and Mitsubishi failed and the reasons for this cannot be disentangled from the Chrysler's problems in the USA and Daimler's problems in its heartland. From the outset Mitsubishi's weaknesses were considerable. In addition to its poor financial performance (Table 1) it suffered from an excessive product range, too many models in each segment, a weak market image and from serious deficiencies in the quality of its manufacturing facilities. The official relationship between the two firms had barely been instigated when problems began to reveal themselves. Between July and August a million vehicles had to be recalled due to faults being exposed, causing the firm's share price to drop by 30%. The following month CEO Katsuhiko Kawasoe was forced to resign after Mitsubishi admitted publicly to covering up defect problems in its cars (Diamond, 2000).

As far back as 1977 the firm had been secretly repairing its cars instead of reporting the problems to the Japanese Transport Ministry. The failure to make the ministry aware of customer complaints prompted the Transport Minister, Hajime Morita, to publicly chastise the group (BBC, 2000). The response to the scandal from the DaimlerChrysler management board was to renegotiate the financial terms of the merger downwards. The cost of the 34% stake in the Japanese firm was reduced from \$2.1 billion to just \$1.9 billion.

Table 1 Profit and loss account Mitsubishi Motor Corporation: (billion yen)

<i>Year</i>	<i>Profit loss</i>
2000	(278)
2001	11.2
2002	37
2003	(215)
2004	(474.8)
2005	(92.2)

Source: Adapted from Paul (2008)

It was recognised that Mitsubishi stood in need of turnaround strategy and to this end, Rolf Eckrodt, a senior Daimler manager who had been instrumental in turning around Daimler's Adtranz rail technology subsidiary, was quickly appointed as chief operating officer at Mitsubishi Motors and dispatched to Japan to affect a turnaround via crisis management, improve the company's image and transform its position through new model development in the small car segments. Eckrodt, however was disadvantaged in that his powers were limited. DaimlerChrysler were only minority shareholders in Mitsubishi as its main board membership was limited to three. Moreover, Eckrodt had to report to a Japanese Chairman and so did not have full operational control. Aware of the depth of the problems, Eckrodt, nevertheless, succeeded in reducing costs by: reducing the headcount by 9,500 from a total of 65,000; closing one factory to reduce capacity

under-utilisation by 20%; by initiating a programme to cut material costs by 15% by 2003; and reducing the number of platforms by 50% (Paul, 2008).

Eckrodt's policy was based on encouraging Mitsubishi to move away from a culture of engineering dominance to one of being market led in developing new models to be shared with Chrysler. Efforts were made at integration through the planned development of a new plant at Kolleda in Germany. Additionally plans were put in place with Hyundai to establish *The Global Manufacturing Alliance* in five factories across the globe with a total capacity to turn out two million power trains per annum to complement anticipated platform sharing and cross supply agreements. Little of this came to fruition as Mitsubishi's profits continued to slide downwards and generally post merger integration strategy failed (Schmid, 2001). However, the plight of the Asian wing of the conglomerate was not the only concern for German management.

The second simultaneous problem threatening the new DaimlerChrysler group was the poor performance of its American unit, whose shortcomings were creating headaches for its German partner. When the DaimlerChrysler merger had been broached in 1998 the US firm was at the top of the US market. Within two years, however, it had spiraled deeply into crisis, racking up \$4.7 billion in operating losses by 2001 as a result of fierce domestic and foreign competition in the light truck and sports utility vehicle (SUV) market on which it was over dependent, a situation that was not helped by heavy price discounting. In 2000 a Daimler veteran Dieter Zetsch was dispatched to USA with a remit to turn Chrysler around. Immediately Zetsch attacked the problem of excessive costs by cutting 25,000 operatives and idling six plants to improve capacity utilisation (Gomes et al., 2010 forthcoming) As Juergen Pieper, an auto analyst with Metzler Bank in Frankfurt, noted:

“Chrysler had done almost everything right for a couple of years, and they were simply too slow in reacting to the competition that moved into their markets.”
(quoted in Greimel, 2000)

In addition to their slow reaction to encroaching competition from both indigenous and US produced Japanese products, particularly in the area of minivans and SUVs, the company had reached a plateau in its truck sales. However, competition alone did not account for the decline in Chrysler's fortunes. Chrysler products also had a reputation for poor quality build and excessive fuel consumption that made them increasingly unpopular and market share fell (Gomes et al., 2010 forthcoming).

The result was that German management, faced with both its Western and Eastern divisions in difficulties, was now forced to divert its attention to its US-based Chrysler arm with less attention being devoted to Mitsubishi and so over stretched its managerial resources. This was not helped by Schrempp's ill-judged comment in 2000, admitting he had lied in 1998 to get Chrysler to agree to a business combination with Daimler-Benz. He admitted that it had always been his intention to control Chrysler and operate it as a division. This prompted DaimlerChrysler's third largest shareholder, Kirk Kerkorian, to bring a federal lawsuit against DaimlerChrysler and senior company executives for fraudulently inducing the 1998 vote of Chrysler shareholders (Millet, 2000) In January of the following year a disgruntled Kerkorian sold ten million shares in Daimler-Chrysler. (Goodman, 2001) The outcome was that the stock price of the DaimlerChrysler that had been steadily declining from its 1998 high of \$108 dollars now plummeted to \$47 dollars far below its price at the time of merger, which shook German shareholder confidence seriously as all three divisions of the company appeared to be suffering.²

In response to what was tantamount to a near crisis situation, Schrempp announced plans to restructure both the Chrysler and Mitsubishi units in February of 2001. The proposed new strategy involved eliminating thousands of white-collar jobs, cancelling the development of marginally profitable vehicles and sharing auto parts between Chrysler and Mitsubishi. On 16th March DaimlerChrysler let go about 2,700 salaried workers while another 2,285 opted for early retirement. Another 1,800 contract workers were also released, bringing the total German cutback to 6,785 (DaimlerChrysler, Annual reports and accounts, 1998–2007).

This recovery plan accepted that DaimlerChrysler would record losses of \$2.5 billion in 2001 and would take a restructuring charge of \$2.8 billion in early 2001. The plan expected the group to break even in 2002 and earn a profit of \$2 billion in 2003.³ However, the impact of declining profits and high profile court cases had damaged DaimlerChrysler's image resulting in two of the largest US rating agencies, Standard & Poor's and Moody's Investors Service, cutting their long-term ratings for DaimlerChrysler. Schrempp's \$3.64 billion, three-year recovery plan was put in grave danger of derailment (Paul, 2008)

The seriousness and depth of the three companies' problems were further compounded when Mitsubishi incurred a \$454 million provision cost against its 2003 accounts as a result of default payments on its zero-zero-zero finance offer instigated at the beginning of the millennium (Mitsubishi Motors, 2004). The corporate and financial difficulties encountered in both the US and Asian arms of the organisation at the cost of product rationalisation and new model development, also impacted negatively on Daimler's own domestic operations. As early as 2000, German shareholders voiced their concern that Daimler was more or less subsidising Chrysler which by that time was already viewed by many German shareholders as a failing enterprise. Daimler's situation was not helped by the fact that BMW had overtaken it in volume of production, while in the US market its sales figures had been exceeded by those of Toyota's Lexus as the best selling luxury brand (Power and Boudette, 2005). Forced to squeeze costs to achieve greater profits from the group, by July 2003 due to severe competition in Europe, Mercedes had fallen to the lower levels of J.D. Power & Associates' reliability survey as a result of corner-cutting on quality and concomitant failures in new hi-tech technology applications in its vehicles (*Business Week*, 2005). The culmination of this was a series of recalls of sedans in the Mercedes e-class segment – 680,000 in 2004 and a further 1.3 million in 2005 which proved highly embarrassing for a luxury premium class producer. Finally, problems arose with the Smart. Launched in 1998 in an attempt to raise Daimler's profile in the small city-car segment, the project lost money almost continuously. For example, in 2004 on sales of 160,000 units, the company sustained losses of over \$400,000 (Taylor, 2005).

The situation for Schrempp and Daimler had become difficult. Having lost \$60 billion in stock market value in six years and with the company's net profit for 2003 down 91% from the preceding year, the CEO in April 2004 was forced to face down angry shareholders who felt that the existence of Daimler itself was being eroded. The shareholders and the German media voiced the opinion that the problems in the USA and Japan were endangering the very survival of Daimler itself and it was this that heralded the beginning of the end for Schrempp's attempts to create a global firm. Schrempp though steadfastly stuck with the view that a global company could be created and argued the case for a financial restructuring of Mitsubishi. The Board, however, refused his request for a \$1.5 billion cash injection for Mitsubishi and took the decision to extricate

DaimlerChrysler from its Asian holdings by selling off its shares in both Mitsubishi and Hyundai and so abandoned them. This decision opened the route to preserving the integrity of Mercedes and ensures its survival as a viable entity. In so doing it ended Schrempp's ambitions; he was left with little alternative but to resign in early 2005 (Paul, 2008). News of the resignation sent Daimler Benz's share price soaring by 9% adding \$4 billion to its market value (Gomes et al., 2010 forthcoming). The Asian adventure had ended in a debacle, the dream of a global enterprise ended ignominiously and probably paved the way for the subsequent demerger with Chrysler in 2007.

7 Conclusions

Several conclusions can be drawn from the failure of the DaimlerChrysler merger with Mitsubishi. Intense competition in the car manufacturing sector globally, combined with the need for scale and scope, had left Daimler-Benz with few real alternatives to Schrempp's plans for expansion overseas through merger and acquisition and so forestall any would-be predators. The two mergers in question did not happen in isolation. German firms generally had been heavily engaged in foreign investment throughout the 1990s and equally, Schrempp's global vision was also matched by other automotive manufacturers with firms like Ford, Renault, Volkswagen and GM, eschewing organic growth and expanding via merger and take-overs.

Theoretically, therefore, Schrempp's ambitions for Daimler-Benz made good business sense, but specifically in the case of Mitsubishi there does not appear to have been a clear post-merger integration strategy, save that the Japanese venture would perhaps improve Mercedes prospects in the market of the Far East and that Daimler-Benz would benefit from access to small car technology. It could, however, be argued, nevertheless, that the decision to enter partnership with an ailing Mitsubishi in 2000, a group whose management culture stood in sharp contrast to that of Daimler was a serious error of judgement in terms of timing due to the long running recession in the Japanese economy. Had Daimler to deal solely with an underperforming Chrysler, the haemorrhage of capital and managerial talent from Daimler-Benz to its partners may not have proven so serious as the German managerial resource base became seriously overstretched. The dual challenge of both a troubled US operation in conjunction with a failing Mitsubishi Motors Corporation proved too much. In essence it is legitimate to ask whether or not a full evaluation of Mitsubishi had been carried out prior to the merger to establish its strengths and weaknesses? Perhaps proof of this can be evidenced by the failure to develop an appropriate series of vehicles.

Perhaps part of the reasoning behind DaimlerChrysler's decision to acquire Mitsubishi can be found outside broad market theories on mergers. Both Vermeulen and Barkema (2001) and Seth et al. (2001) have independently posited the idea that mergers may also take place when controlling managers are focused on growing their businesses rather than on profit maximisation. In this instance the motive for the merger appears to lie not just in growth maximisation, but also in augmenting managerial status. The charge that Schrempp was acting in this vein would appear somewhat inconclusive. The basic rationale behind the deal was sound, even if the timing was poor. Yet, it is difficult to escape the suggestion that Schrempp's force of personality and his desire to achieve his ambitions for the group did much to gloss over the potential problems in the deal in 2000. The ultimate lessons flowing from this case are the dangers in not having fully thought

out post integration strategies, the importance of timing and the consequences of stretching resources too thinly in times of economic crisis, especially when the very existence of the dominant partner could be threatened.

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Notes

- 1 Grässlin quotes the Chrysler figure at 0.547, while the German journal *Week in Germany* quotes the figure used above. Both agree that Chrysler was the loser.
- 2 Kerkorian sought more than \$2 billion in actual damages (including the acquisition premium denied it by the pretense of a merger of equals) and \$1 billion in rescissory damages (representing the drop in value of the DaimlerChrysler shares exchanged for Tracinda's Chrysler stock). On top of this Kerkorian wanted punitive damages of at least \$6 billion to punish the defendants for defrauding all Chrysler shareholders and the investing public at large.
- 3 'Nothing down, no interest, no payment for the first year' had proven a successful campaign in the sale of Mitsubishi vehicles. However, when the time came for the first series of repayments, defaults on repayment were higher than had been anticipated by the company.