Business Week: July 20, 1998
Department: Economic Viewpoint
Headline: DAIMLER HAS TO STEER THE CHRYSLER MERGER
Byline: BY JEFFREY E. GARTEN

When Chrysler Corp. and Daimler Benz announced their megamerger two months ago--the largest international corporate marriage in history--it looked to be further evidence that globalization cannot be stopped. But unlike fluid flows of money and technology across borders, the links between companies of different nationalities can be quite brittle. Remember how Renault was unable to hang on to American Motors or how Matsushita had to disgorge Universal Studios? Unless tough decisions are quickly made to overcome deeply ingrained differences of strategy and culture, global combinations can easily fall apart. Indeed, the survival of the soon-to-be Daimler Chrysler is already at risk.

The new company will face massive challenges. Daimler Chrysler will still be only the fifth-largest car company, behind General Motors, Ford, Toyota, and Volkswagen. Its product line, ranging from an $11,000 Dodge to a $130,000 Mercedes, could foster a confused image and culture. The German corporate governance system in which labor and banks hold board seats in order to take a longer-term view could collide with the obsession of American shareholders with immediate returns. Compensation philosophies could be irreconcilable: Just compare Chrysler Chairman and CEO Robert J. Eaton's 1997 pay package of $16 million with that of Daimler chief Jurgen E. Schrempp's $1.9 million. And politically explosive decisions are sure to arise about how to apportion layoffs between America and Germany when downsizing occurs because of the overcapacity in the global auto industry.

A SLOW FUSE. To make this deal work, Daimler--which has been subtly identified by both parties as the controlling partner despite all the talk about this being ``a merger of equals''--needs to take complete charge, quickly and decisively. But in public statements, both Eaton and Schrempp have gone to great lengths to underline the ``evolutionary'' process of integrating the two companies. This slow-fuse approach--joint CEOs for a few years; headquarters in both Stuttgart and Detroit; separate operations for engineering, manufacturing, and marketing--could unleash powerful centrifugal forces among competing departments.

In fact, Daimler ought to study another set of deals involving a high-profile takeover by an admired foreign company of prized American assets: Sony Corp.'s acquisition of both CBS Records Inc. and Columbia Pictures in the late 1980s. Sony started off mistakenly thinking that it could oversee its freewheeling American companies from afar and with a light touch. It failed to put its own strong management structure in the U.S. It neglected to build links between Sony's American subsidiaries on the two coasts. It lost control of expenses, and by 1994, Sony was forced to take a $2.7 billion write-off.

But lessons were learned. The following year a new president, Nobuyuki Idei, put the Sony stamp on its U.S. operations. He replaced top management in America with highly professional U.S. executives, such as Howard Stringer, former president of CBS Broadcast Group, who supported Sony's tradition of teamwork and its goals of integrating its operations in the U.S. and around the world. Top Japanese executives were placed in New York and Los Angeles. Idei came to the U.S. once a month to oversee the business and to network with such American counterparts as Bill Gates and Andy Grove.

Sony went from a loss of $1.8 billion in 1995 to a pretax profit of $3.4 billion in 1997, helped in part by its enormous success with computer video games. A leader in the U.S.-based digital revolution, Sony has even marshaled the resources of its music subsidiary in New York, its movie business in Los Angeles, and its electronics expertise in Tokyo to produce European movies in local languages out of Germany.

Sony and Daimler are in different businesses, of course, and no one blueprint applies to all big international mergers. But the most successful global companies, such as Nestle, ABB Asea Brown Boveri, and General Electric, have put their unambiguous imprint on all their operations by imposing one strong corporate culture with central management for the most critical functions. Someone must articulate overall philosophy and values and establish companywide investment priorities. Someone must set financial and operational performance requirements, compensation policies, and development paths for senior executives. Unless Daimler takes charge of these kinds of tasks immediately, don't be surprised if the deal comes unwound. Announcing a big global merger is nothing compared to making it succeed.

BY JEFFREY E. GARTEN,DAIMLER HAS TO STEER THE CHRYSLER MERGER,
07-20-1998, pp .