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DAIMLER-BENZ AG (DBAG)

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Introduction

Perhaps never before, in all of its 109-year-old history, has Daimler-Benz AG (DBAG) faced so many difficulties as it has in 1995. As the largest German company, founded in 1886 by Gottfried Daimler, and merged with Benz & Co. to form Daimler-Benz AG in 1924, it is now confronted with both the implications of its 1985 initiated diversification program and with external obstacles. Defense businesses have been shrinking, with no end in sight, and the global civil aerospace business has been seeing a prolonged cyclical downsizing. The devaluated US-dollar and increased international price competition are narrowing margins in the aerospace division of the Daimler-Benz AG.

This case study describes the transformation path of the traditionally exclusively car and truck manufacturer to a diversified group operating today in four main businesses: passenger cars and commercial vehicles (it generated 66% of the group turnover of DM 105 bn in 1995), Deutsche Aerospace (14%), AEG (9%), and Debis (11%). Beginning the transformation analysis in 1969, three periods can be identified: the phase of anticipation 1969 - 1985, the phase of energization 1985 - 1989, and finally, the phase of implementation 1989 - 1994. An annex encompassing the years 1995 - 1996 points out major turns in the business portfolio and the strategy of Daimler-Benz AG, which represent a reorientation towards the business structure around the year 1985.

The phase of anticipation contains the key areas of analysis which address the questions of: Where is the vision generated? What are the necessary skills and competencies to activate the vision? And what are the sensors which activate the vision? The phase of energization attempts to answer questions such as: Which new resources are introduced to accelerate the process? What takes place in order to increase the urgency and irrevocable nature of the action? And which intermediate steps are made to legitimize the actions ex-post? The final phase of implementation asks: What new positions are created? What operative mechanisms are created? What are the communication mechanisms used? And what is the cultural affiliation of the company?

The organizational integration of change strategies will be presented in the context of three frameworks: the structural, the political, and the cultural/human resource frameworks (similar to those of Bolman/Deal's "Reframing Organizations"). In the structural framework, the organizational structure is a tool used to achieve certain goals. Therefore, goals, tasks, and efficiency will be examined. Dimensions of these variables are: the legal structure, the reporting system, the decision process, and management systems.

In the analysis of the political framework, a company is considered as a political arena in which power, influence, and conflicts play key roles in processes of negotiation. Dimensions of these variables are: power based on hierarchical

positions, individual power, information and expertise, alliances and networks, access to and control of agendas. In the cultural/human resource framework, the company is seen as a theater-like social interaction system, in which values and symbols are negotiated and mutated. On the part of human resources, individual dimensions are: management style, informal roles, group norms, interpersonal conflicts, and leadership. The cultural aspect includes symbolic dimensions such as myths, stories, tales, rituals, ceremonies, metaphors, humor, and games.

The important features of the transformation process can be described in a more general manner. Unlike other companies of similar size, DBAG initially had to develop the know-how to manage a diversified group which operated in different business areas. The symbolic figure who designed, accelerated, and represented the transformation process was Edzard Reuter, who became DBAG's CEO in 1987. Prior to this time, he was a member of the Board of Managers and was responsible for business planning and finance.

The vision behind the transformation process has been that of an "integrated technology group" with the capability of being a leader in traffic and transportation systems. Compared to other car producers, Daimler-Benz diversified into the same industries (aerospace, electronics) as others had earlier (but most of these others had divested it in the meantime). Most of the acquired businesses had no real customers, but had obtained budgets from the state.

The phase of anticipation 1969 - 1985

The time phase prior to 1985 can be summarized as being DBAG's first steps into a diversification strategy, as well as being the beginning of the internationalization of the car and truck businesses. It also included the arising necessity of a service strategy caused by customer needs.

In the 1960s, DBAG concentrated its energy on the production of passenger cars in the upper and luxury segments of the market, along with commercial vehicles. Sales were made predominantly in the domestic market. An important strategic activity which underlined DBAG's decision not to enter the mass automobile market was the divestment of Auto-Union-Werke to Volkswagen in 1964. In the 1960s, the product "car" was still in the first stage of its life cycle, implying a high market attraction. Generally, the automobile producers concentrated their activities on a special market segment.

DBAG's commercial vehicle division attained a more competitive size by means of two acquisitions transacted in 1968/1969. With the takeover of Hanomag-Henschel GmbH, commercial vehicles sales rose by nearly 50%. Daimler became the world market leader in heavy duty trucks. From Krupp AG, DBAG could buy only the service and maintenance division, since Krupp's production facilities were already shut down.

By the end of the 1960s, an important internal measure had been taken. In Friedrichshafen, at the Lake of Constance, DBAG concentrated its engines and propulsion systems production. The creation of this business unit offered DBAG new strategic options, since it was now an accepted partner for the German MAN AG. The next logical step was in January 1970, with the setting up of the joint venture MTU München GmbH by DBAG and MAN, each holding a stake of 50%. Daimler's contribution to this joint venture was its formerly acquired or formerly founded propulsion manufacturers Maybach-Motorenbau GmbH and Mercedes-Benz Motorenbau GmbH. Slight steps in the direction of diversification can be recognized when examining MTU's products - such as jet engines, propulsion systems, and gas propulsions - which are not exclusively automobile industry products, but which are intended for those of the marine, airplane, and military industries.

The 1970s can be characterized primarily by the internationalization of the businesses of DBAG. Especially in the United States, DBAG intended to strengthen its presence. These activities could be called the pursuit of regional diversification. As a worldwide leading manufacturer of commercial vehicles, the strategic planning department placed at the top of its agenda the entry into the US market - the largest single market in the world. Because of different product standards, DBAG knew that the only way to enter the US market was by means of the acquisition of a domestic manufacturer. In 1977, DBAG bought Euclid Inc., Ohio, a producer of heavy trucks used in coalmines and roadworks. Due to disappointing results, DBAG sold Euclid to Clark Equipment in 1984. In 1981, a major investment in the US was the acquisition of Freightliner, a truck producer with a market share of 9% in 1981, improving to 23% in 1992. With Freightliner, DBAG's CEO Prinz (1980-1983) hoped to achieve two goals: firstly, to obtain an established position in the largest single market, and secondly, to enlarge its vehicle portfolio.

The 1970s also show the first signs which explain DBAG's service strategy in the 1990s. The manifestation of that strategy was the formation of Debis - the service division of the Daimler-group. Customers asked more and more for individual financing concepts which would facilitate the purchase of Daimler's high quality but also high-priced products. These market needs were met by founding finance and leasing companies in many countries.

Although Daimler's sales were affected only by a 1% drop, the first oil crisis in 1973 led to two long-lasting conclusions about the future of the car industry.

The first conclusion reached was the idea to produce a car with lower gas-consumption, a car which was also under the level of the high value S-class. This S-class, until that point, was called the compact-class, the 190 model or the "Baby-Benz". DBAG's board was well aware of the risk of substitution - established customers of the middle-class might buy the upcoming cheaper 190

model - but it recognized the importance of broadening the product portfolio. In the same way, Daimler reduced its dependence on upper class clientele by reentering the upper mass market. The consideration of environmental protection - a pertinent debate mainly in the US - was one of the reasons for the CEO, Zahn, to push the 190 model. In this vein, he was influenced by his past experience abroad and by his former employer Volkswagen, the classical mass producer. With Daimler's average construction and development time of less than 10 years, the 190 model was introduced to the markets in 1982.

The second impact of the oil crisis was a more general discussion about the future of individual mobility. In 1973, Zahn proposed to build up liquidity reserves for upcoming activities outside the automobile industry. He put Edzard Reuter, the Director for Business Planning, in charge, giving priority to substitution products and diversification possibilities. In 1984, Edzard Reuter and Werner Niefer (both Members of the Board of Managers) mentioned the vision of an integrated technology group for the first time.

Already in 1973, a working committee for "Long term planning and diversification" was founded. The committee's two major goals were to deal with the question of general fields of growth beyond the product "car" and, secondly, to identify investment opportunities for free cash flows. The committee's members were Edzard Reuter, at that time Vice-Member of the Board of Managers and responsible for corporate planning, and the heads of the departments of: product planning, long-term planning, medium-term planning, research & development, and finance.

DBAG's product portfolio encompassed the two segments of passenger cars and commercial vehicles. However, the first of the two was at this time far more successful. The automobile was still climbing on its life cycle curve and the competitive forces did not impact Daimler's performance, yet. The upper segment of the German car market was only lightly disturbed by BMW.

Structural framework

For a long period of time, there was almost no alteration in organizational structures and processes at DBAG. In the 1960s, production and marketing were concentrated on high-quality passenger cars and commercial vehicles for the domestic German market. With the beginning of the 1970s, marketing policy opened slightly to international markets, which was followed by the building of production plants abroad. Regional or horizontal diversification assumed first priority.

During this long phase of stability, the functionally designed organization appeared to be an adequate structure to run the automobile business. The CEO was charged mainly with business planning, central organization, and group

auditing. Other members of the board were responsible for R&D, production, purchasing, sales, personnel, finance, and subsidiary companies. On the second organizational level were the two business units: "passenger cars" and "commercial vehicles", which also had their own functional departments.

The strengths of this functional organization lay in the pooling of equal functional tasks towards the realization of synergies within basic and lateral functions. Competencies and economies of scale could be exploited to full advantage. The other side of the story was a high demand for coordination, caused by the high degree of labor fragmentation, a weakness of functional organizations. Because executives were in constant need of spending most of their time in workday routine, time for occupation with strategic management tasks was limited.

As horizontal and regional diversification was pushed ahead in the mid 1980s, the US activities were reorganized. The US companies were separated into an intermediate holding - Daimler-Benz of North America Holding Company, Inc. This holding encompassed the import and distribution unit of Mercedes-Benz of North America, Euclid, Freightliner, and the Freightliner Credit Corporation.

Political framework

References to Daimler's political arena are found in the annual report of 1983. In the context of a general socio-political discussion about salaries and wages in the early 1980s, the statements were determined by efforts towards continuity and stability. The constructive cooperation and partnership with the unions - in the past as well as in the future - was underlined.

Cultural/human resource framework

At the end of the 1970s, human resource management at DBAG concentrated on questions of workplace security and of the financial security of the employees. In 1983, DBAG began building up a pension fund to ensure financial security of employees and their families. In the mid 1980s, the redesign of work layouts gained significance, due to the rise of new office and workshop technologies. DBAG strove for the humanization of its work layout in the light of the need for a fit between the individual and the technology.

The main progress in the field of human resource management was the development of "Guiding Principles for Leadership and Cooperation at Daimler-Benz AG" which passed the board in March 1979, following intense discussion amongst the 1,500 executives. Cooperative leadership and trust cooperation, between executives and employees (vertical) as well as among the several departments (horizontal), were the basic messages of these principles. In

correspondence with DBAG's corporate philosophy, no employee was dismissed in the beginning of the 1980s, even though the labor situation was very critical at that time, due to economic recession.

The phase of anticipation is characterized by the strong self-confidence of the DBAG workforce as a manufacturer of quality and technologically advanced automobiles. Employees' identification with Daimler-Benz was high and "everyone" was proud to work for Daimler - which may have been supported by the comparatively high wage level paid at Daimler.

The phase of organisation 1985 - 1989

In 1985, the phase of lateral and technologically concentric acquisitions began. DBAG bought the majority of AEG AG, Dornier GmbH, MTU GmbH (from its joint venture partner MAN) and MBB GmbH. Beginning in 1985, DBAG spent more than DM 5 bn in acquisitions outside its traditional automobile business area. Proclaimed goals were, and still are, the realization of synergies in the technological areas via know-how transfer and the building of a further strategic business unit: that of aerospace. A climax of the transformation process was the setting up of the holding company DASA (Deutsche Aerospace AG) in 1989.

Because microelectronics became a more important component of automobiles, DBAG wanted to have this critical technology inhouse. DBAG learned from computer manufacturers about the consequences of their chip import dependency.

DBAG's business portfolio changed radically in the 1980s. The high cash-flow earned by Mercedes-Benz was used to finance the losses imported with the acquisitions of the aerospace companies and of the AEG electric company. Although the business portfolio was still in balance, the "cash cow" automobile had reached the turning point of its life cycle. A change in competitive forces was obvious, caused mainly by three developments: first, the increasing activities of Japanese car manufacturers in the upper segments of the market; second, BMW had achieved equivalent sales numbers to Mercedes; and finally by the decline in overall demand in the automobile market.

Because DBAG is one of the leading car manufacturers in the world in the small upper segment, it would have made sense to acquire a competitor only in order to broaden the product range. DBAG invested in businesses which were devoted to the development of new products and the achievement of leading market positions. Since some of the businesses were too risky for a stand-alone position, the configuration of strategic alliances and networking became capabilities which had to be learned by DBAG. Edzard Reuter once justified the acquisitions and alliances of the 1980s as necessary to attain a position from which it would

be possible to be an equivalent partner for an international conglomerate - like the Japanese Mitsubishi-group.

The vision of the integrated technology group, as well as these strategies, were closely connected with the person of the CEO Edzard Reuter. However, Reuter was not in an isolated position. Important protagonists were also the Board Member of the Passenger Car Business Unit, Werner Niefer, and the Chairman of the DBAG Supervisory Board from 1985 to 1990, Alfred Herrhausen (CEO of Deutsche Bank). The business planning and controlling unit as well as external consultants were other sources for the diversification strategy. An explicit opponent of the diversification strategy was Herrhausen's predecessor as Chairman from 1976 to 1985, Wilfried Guth.

In the phase of energization, the following chronicle of acquisitions can be listed:

- During the year of 1985, DBAG raised its stake in Germany's leading aircraft engine company, MTU, from 50% to 100%. MTU had been founded in 1970 as a joint venture between DBAG and MAN.
- In the same year, a 66% stake (voting rights: 88%) was purchased in the family-owned Dornier aerospace and light aircraft manufacturer.
- At the end of the same year, a majority stake of 80% was acquired from the creditor banks in Germany's third largest electrical engineering/electronics group, AEG, which had sought protection from its creditors in 1982. In the discussion as to whether the DBAG transformation process is proactive rather than reactive, the AEG case clearly shows how DBAG exploited a favorable situation in 1985 - when AEG was close to bankruptcy and its bidding price was low.
- In September 1989, DBAG acquired the missile, aerospace and armament group MBB - which holds an 80%-stake in Deutsche Airbus GmbH, the German partner in the Airbus-group, together with Aérospatiale and British Aerospace.

With these acquisitions, DBAG made steps in the direction of entirely new technologies. In fields such as process technology or power technology, both Dornier and AEG had developed know-how in the past. On the other side, the MBB and AEG acquisitions show clearly that besides "fitting" technologies, there were business units which were not able to be integrated, and which had to be sold in the long-term. In the succeeding phase of implementation, DBAG's efforts to sell those businesses which either did not reach a critical mass or which did not fit into the newly established Debis service division (e.g. AEG's office equipment unit Olympia) are evident.

Looking at the multiple coverage of many technology areas inside the DBAG group, one question has to be raised: What is meant by the "realization of synergies" in this context? At DBAG, this realization was not supposed to be equal to the rationalization in recurring technology areas. Instead, collective development programs and technology transfers between the group's units was to promote an overproportional extension of technological competencies. A prerequisite for these goals was a corresponding information and communication network, the establishment of which was a structural and organizational problem as well. Firstly, it was a structural problem because of the enormous bureaucratic efforts which are necessary to institutionalize such a network. The second part of the problem was dealing with the mutual acceptance between the traditional and the acquired companies inside the DBAG group. The companies were characterized as having distinct corporate cultures, with few similarities to each other.

Structural framework

The first major steps towards a technology-concentric (and not a business-concentric) diversification were made in 1985. One impact of DBAG's diversification policy was the limited practicality of a functional organizational structure. The management and coordination problems could not be mastered any longer and forced DBAG to adapt their organization to the new range of businesses. Additionally, the increasing weight of international business generated a coordination problem between the DBAG headquarters and these businesses.

To handle the qualitative and quantitative shifts within the group, the functional organization was replaced by an organization mixture with both functional and divisional elements. In total, the number of board members was eleven, including the chairman. In addition to the two chief executives of the passenger car and commercial vehicle divisions, the CEOs of MTU, AEG, and Dornier were also members of the board of DBAG. Additional members of the board represented the functions of: finance and economics, R & D, purchasing and logistics, personnel and sales. The divisional managers had full competency in all product aspects, in the planning of production quantity and in price calculation. Nevertheless, there was quite a large potential for conflict between the divisions on one side, and the traditional, functional central departments on the other. Eventually, the mixed organizational structure can be interpreted as resulting from the distribution of power and positions.

The mixed organizational structure was intended to combine the strengths of functional and divisional management. While the central departments ensured the unity of business policy, the divisional elements were better able to realize potential synergies. Flexibility was strengthened through higher adaptability and by the closer fit of businesses to their markets. Higher autonomy for the

divisions enabled the board to concentrate on business policy questions and on basic strategic issues. The attempt to realize two contrary organizational concepts at the same time caused a potential field of tension within the group organization. The overlapping spheres of competency of members of the board and the second level managers (directors), in the field of strategy in particular, led to conflict situations.

With the purposes of group integration and the realization of potential synergies, the "structure and synergy committee" was established. Headed by the finance department, managers of all divisions and functions participated in this committee. This did not include the Daimler CEO, Breitschwerdt, himself. From a political point of view, this committee was a means of strengthening the position of Edzard Reuter, at that time Head of Finance and representative of the strategic reorientation program, against his opponents inside DBAG. An additional hint towards this interpretation of power distribution is the fact that Reuter, as head of the committee, reported directly to both the CEO, Breitschwerdt, and to the Chairman of the Supervisory Board, Herrhausen.

The division was responsible for all of profit, while the executive officers, without division responsibility, delivered services to the divisions. The executive officers also coordinated activities between the divisions of: AEG, MTU, Dornier, passenger cars, and commercial vehicles.

Reuter continued as Head of the Structure and Synergy Committee, which was the real power-position. In this position he handled the traditional responsibilities of a CEO - such as: legal affairs, public relations, planning, auditing, and electronic data processing. Additionally, Reuter took charge of the controlling department. Finally, he held all pool positions within the management team of DBAG.

In the phase of energization, a new strategic planning system, "periodic strategic planning" (PSP), was developed and announced in several official statements as an important management tool at DBAG. The purpose of the PSP was to support all levels inside the DBAG group in the automatic control of the individual line and executive functions of each unit. Cornerstones were: strategy achievement within projects as well as the periodic controlling of those projects. Results of the controls were added to the annual continued description as a "delta report". Serious needs for strategic action might lead to a revision of strategic goals. A central element of the PSP process was the discussion among the responsible line managers on all strategic levels about the important elements of the strategy. The main strategic levels were (bottom to top): the strategic business unit (SGE), the strategic business field (SGF) and the strategic group business field (KGF).

The conception and implementation of PSP had to take into account the heterogeneous needs of all departments. All levels participated in the strategic

planning process from the beginning, which therefore includes top-down as well as bottom-up elements. This took into consideration the experience of the business units and increased identification with group strategy and goals. The role assigned to the group controlling and planning department was that of deciding which resources were to be made available for single investment projects.

Political framework

This phase of energization was strongly influenced by the appointment of Edzard Reuter as Chairman of DBAG's Board of Managers in 1987. It was Reuter who started the discussion about diversification into new business fields, with a paper which he presented to the board in 1984. Slowly but determinedly, Reuter and Niefer took more and more power to their side, while Breitschwerdt - appointed by Herrhausen's predecessor Guth - drifted into more representative functions. Breitschwerdt too was against the new management structure, because he could not see any necessity for it, but Reuter and Niefer were convinced that change had to happen. They asked for the support of Herrhausen, who, in turn, in a joint effort with Reuter, created the mixed organization as a temporary structure.

In 1980, Reuter had already explained in a very important speech the comparability of business to politics: "It is important to see that entrepreneurial actions are consequentially politically relevant. The consequence is that it is not sufficient enough anymore to have close contact between top-managers, but that managers must state their view about political, economic and social challenges in open communication."

With the acquisition of Dornier, MTU, AEG, and especially that of MBB, the DBAG group faced massive criticism, as it became the biggest armament company in post-war Germany. With this background, all public statements of DBAG managers needed to be interpreted in the political framework in order to weaken the level of suspicion in large parts of the public community. In its information to shareholders, Daimler talked about "heavy vehicles" instead of tanks, and AEG's important armament division was called the "special technique division".

Cultural/human resource framework

In 1985, the emphasis was placed on the realization of projects towards the intensification of further education at the workplace through workshop circles. The preparation and qualification of employees with regards to new technologies in workshop and office jobs was stressed, and it played an

increasing role in the following years. In 1985, for the first time, these workshop circles were combined with the stronger involvement of employees in business problems and their critical evaluation.

Another important part of executive relations was the internal proposal system. The high, and still increasing, level of participation was interpreted as a sign of strong employee identification with the company and its products.

An eminent cultural element at DBAG was the lack of an open and complete information policy. For example, even the members of the supervisory board were not informed about the profit and loss accounts of the different divisions; only an overall result was made public.

The phase of implementation 1989 - 1994

Unlike what one would expect at the beginning of a phase of implementation, the year 1989 did not end the period of acquisitions at DBAG. However, the group never again showed the same degree of activity as it had in the previous four years. The year 1989 marked the important shift from the mixed organizational structure to the management holding (see below) of Daimler-Benz AG, with its three subsidiaries: Mercedes-Benz AG (automobiles), AEG AG, and DASA. DASA, which encompassed Dornier, MTU, MBB, and the aerospace businesses of AEG, was set up in 1989 to concentrate all aerospace and armament activities. In July 1989, DBAG's passenger car and commercial vehicle divisions were separated into the independent corporate entity Mercedes-Benz AG. One year later, in July 1990, the fourth subsidiary was founded: the Daimler-Benz InterServices AG (Debis), in which all service departments of the DBAG group - such as finance, leasing, insurance, trading, and information technology - were concentrated.

Some outstanding acquisitions were still executed in the phase of implementation. The Debis subsidiary was active in two transactions. A minor acquisition in 1991 was the purchase of the German software-house Diebold GmbH. A major investment was the purchase of a 34% stake in Sogeti S.A., Paris, the holding company of Cap Gemini Sogeti, the largest European software house (consideration: DM 1.4 bn).

For the DASA subholding, the year 1992 was important in three ways. Firstly, the armament technologies, still accounting for 50% of DASA's sales, were affected dramatically when the German government decided to stop the European fighter "Jäger 90"-program. Through the sales of Jäger 90, it would have been possible for DASA to finance the conversion of MBB into civil technologies. 1992 also marked the year when the merger of MBB into DASA had finally been accepted by the German monopoly commission, following a year of public discussion and special approval procedures from the German

government. Eventually, at the end of 1992, DASA bought a 51% majority stake in the Dutch aircraft manufacturer Fokker. DASA's strategy was to complete its regional aircraft business to become a full line supplier. With this acquisition, DASA became the largest European Aircraft producer, possessing all of the potential to be a systems-leader in the civil aviation industry.

The end of 1993 marked a temporary halt of the diversification strategy of DBAG. The successive time span can be characterized as an orientation towards consolidation of the acquired companies in the DBAG group. Like the case of AEG, it demonstrated that even divestments of entire business divisions were now part of corporate policy of DBAG.

DBAG's board was aware of the necessary divestments which had to follow the intensive acquisition phase in the 1980s. This was especially true of the AEG subholding which was constantly selling or closing down businesses. In the years 1991 to 1994, AEG sold eight business fields and closed down another eight. In 1991, AEG eventually closed its Olympia office equipment business after losses totalling in excess of DM 2 bn. In the same year, AEG sold its energy cable business to Alcatel, and its small cellular telephone business to Matra. A majority-stake in AEG's low voltage business was sold to General Electric. In 1993, the Swedish Electrolux AB group bought AEG Hausgeräte AG, AEG's white goods division. AEG's DM 2 bn railway business was a contribution to the 1995 founded 50:50 joint venture ABB Daimler-Benz Transportation AG (Adtrans) together with the Swiss-Swedish ABB group. The 1996 disposal of the power technique business, the automation technology business, and nine additional companies left only three businesses, which are internally transferred from the AEG subholding to the Daimler-Benz holding: the propulsion manufacturing, the postal automation, and the microelectronics businesses. DM 10 bn of the original DM 14.8 bn AEG turnover were lost due to the sale of businesses. After 113 years of AEG history, the Daimler-Benz Board decided in 1996 to close down the AEG Frankfurt headquarters and merge it with the Daimler-Benz holding.

As mentioned above, with the unfavorable economic situation in Germany, the Daimler-group faced a net return of only DM 600 m in 1993, compared with DM 1.45 bn in the previous year. Already in 1992, Daimler for the first time in its history laid off part of its workforce, and cut positions in its four subsidiaries. A total of 51,000 positions were planned to be cut in the Daimler group by 1993 and 1994. The Mercedes-Benz numbers were: 15,000 for 1992, 8,400 for 1993 and 14,000 for 1994. The DASA aerospace group, faced additionally with the collapse of the armament market, planned to cut its workforce by a total of 15,300 before 1996, following a previous reduction of 6,000 in 1993. The shut-down of 10 out of 50 plants demonstrated DASA's critical situation. What made the DASA case politically more complex was the protest of state and municipal governments to the federal government to increase its defense budget. Doing so

would give DASA indirect subsidies, and would so avoid mass unemployment in selected areas of Germany.

Due to massive investments for the development and construction of key technologies, DBAG was looking for cooperation with competitors through strategic alliances and joint ventures. This held especially true for the aerospace subholding of DASA.

On October 5, 1993 Daimler-Benz became the first German company to have shares listed on the New York Stock Exchange. With a display in front of the stock exchange, products of all four subsidiaries were presented to the American public. Prior to this important date, numerous negotiations were held with the Stock Exchange Commission, as DBAG had to publish its annual report according to generally accepted American accounting principles (US GAAP). The US GAAP required a more detailed listing of assets. In 1993, the net return of DM 600 compared with a return of DM 1.45 bn in the previous period. By US GAAP standards DBAG faced a loss of DM 2 bn for the first nine months of 1993. DBAG's acceptance of the US GAAP was interpreted by analysts as a sign of a more public and true shareholder information policy (there were at this time approximately 300,000 public shareholders). Prior to 1993, Daimler-Benz was already listed in Basel, Geneva, Zurich, London, Vienna, Paris, and Tokyo.

For the Mercedes-Benz subsidiary, 1993 not only marked a unique downturn of 5% in sales, but it was also a year in which two important decisions were made. First, the Mercedes board announced that it intended to assemble the new four-wheel drive recreational car in the US. The intended location would be in Tuscaloosa, Alabama, and Mercedes-Benz expected to complete the construction of an assembly plant by the end of 1996, with a capacity of at least 60,000 cars (two thirds of which are intended for export) and 1,500 employees. Apart from the German engine, the plant is intended to source from the US. In this plant, Mercedes-Benz intends to manufacture only one-third of the value of the car, while two-thirds is to be outsourced. The plant was designed to serve as a model for all future plants, and to act as a "Center of Competency" for the group. In order to reach its break-even point at low capacity, the plant was to be built specifically for this product line. Mercedes-Benz was entering this market late, but would at least be entering from a low-cost manufacturing base.

The second important decision built the base from which to broaden the more exclusive (at least until now) product line. By 1997, Mercedes-Benz intended to introduce a sub-compact or city car ("Vision A") with hybrid engine capability which would become available at a price below DM 30,000. Part of the low price strategy were the heavily reduced R&D costs. On the basis of improved outsourcing strategies, Mercedes intended to lower R&D costs by some 30%. What is interesting with regards to the political aspect of this decision, was the discussion (held in public) of where to set up the plant for the A-model. While the Mercedes management initially considered setting up a plant in Eastern

Europe, protests of unions and regional governments to build the car in Germany were successful.

In February 1994, Mercedes-Benz and the Swiss-based Schweizerische Gesellschaft für Mikroelektronik und Uhrenindustrie (SMH) announced a cooperation for the development and construction of a "city-car of the future" called "Swatchmobil". SMH, which is famous for its "Swatch" brandname and for outstanding innovative marketing, was to contribute the propulsion technique and its experiences in modular assembling. The Swatchmobil, which will be constructed for two passengers, with a small carrying capacity, will be offered in 1997 at a price below the DM 20,000 range. This lower market segment will be an entirely new field of operations for Mercedes-Benz.

Another important step for the regional diversification strategy of Mercedes-Benz was performed in May 1993. In the Mercedes Mexican truck factory, some 2,000 cars were up to this point being built from full sets delivered from Germany, but would now gradually phase in local and US components. The plant was also a challenge for the prevalent theory that customers would never buy a Mercedes not manufactured in Germany. The Mercedes marketing department already had been trying to convert the "Made in Germany" trademark into a more internationally perceived "Made by Mercedes" trademark for a long time.

In 1993/94, as a result of a decrease in car sales, a radical change in production technology began to take place. A new contract between Mercedes and Volkswagen was signed in August 1994, in order to allow Mercedes-Benz to benefit from Volkswagen's economies of scale and to reduce own R&D costs. Volkswagen was to deliver the six cylinder engine for the Viano limousine. Up to this point, Mercedes had been involved in more than 60 delivery projects with other car manufacturers.

Sales in Mercedes' bus business were increased in 1994 by the acquisition of its German competitor Kässbohrer GmbH. Mercedes integrated the two businesses and established Evobus GmbH as the holding company for its bus business, which now operates as Mercedes' third car business besides passenger cars and commercial vehicles.

In the future, Mercedes-Benz plans to divide its activities into three categories. The first category is that of "core business" activities, such as engine production, which are considered as essential to both the technological know-how and to the long-lasting reputation. The second category is that of the businesses, such as seat production, which must compete with outside suppliers. The third category consists of activities which will be outsourced as soon as possible. One result of this separation of activities is the disposal of the seat manufacturing unit in Bremen to the German car supplier Keiper Recaro in September of 1994.

Structural framework

Some managers at Daimler-Benz never really accepted the organizational structure of 1986/87, a structure which was sometimes termed an "organizational monster." Consequently, the third phase of the organizational development at DBAG was dominated by change from a more centralized mixed organization, towards a more decentralized management holding in 1989. Reuter favored - as had been originally designed - a pure holding which held the stakes in all subsidiaries, but which was not involved in any R&D, purchasing or sales activities. The holding company was exclusively responsible for corporate planning, corporate finance, central human resource management and for central R&D management.

Until 1989, Daimler-Benz had three subsidiaries: Mercedes-Benz, AEG, and DASA. In July 1990, the fourth business unit of Debis was founded. It was obvious that especially the newly founded DASA, a sub-holding of all acquired high tech companies, had a major integration task within itself, in addition to those integration requirements throughout the entire DBAG group.

The management holding - with a board of eight members - followed the principle of subsidiarity, i.e. the higher management level was only responsible for issues which lower levels could not execute. In this sense, the subsidiaries of the DBAG holding had far-reaching competencies. Therefore, and also due to its status as a legal entity, DBAG was organizationally and legally independent. The group management was guaranteed through contracts which, on the one side, stated that profits earned by the subsidiaries were under free disposition of the holding company and, on the other side, ensured the domination of the holding company over its subsidiaries.

The relationship between the holding company and its subsidiaries was expressed in a "built-in structural dilemma". The heads of the independently operating subsidiaries were also board members of the holding. Additionally, the double functions of the top-managers bore the danger of blending operative and strategic issues. As long as the business situation allowed a profitable business, the problems of this kind of organizational structure were limited. However, if the business situation were to deteriorate, strategists could change to individual competitors who were primarily concerned with their individual results. Similar competency problems arose when Debis was founded. This subsidiary relied heavily upon obtaining human resources, information technology resources, financial resources and leasing activities from its sister subsidiaries. These subsidiaries did not seem very eager to lose such fundamental competencies.

Another area of conflict arose with the decision to force the subsidiaries to buy their financial services from Debis. To address this point, the vision of internal markets, in competition with outside markets, had to become a reality.

Mercedes-Benz argued with Debis as to who would be responsible for truck financing, a very important sales promotion tool.

These potential conflicts were intensified by different corporate cultures which seemed to be almost incompatible: a wholehearted and absolute solidarity between the subsidiaries of the DBAG group was still missing. Until 1992, the Mercedes-Benz managers disliked the impression of serving as a "cash cow" for poorly performing Daimler units. Prevention of any liquid funds leaving the company was the rationale behind the heavy investments made within Mercedes-Benz.

In 1992, intensive planning was done on how to tackle structures which were too bureaucratic. Traditional title, reward and status structures were questioned. The goal was to develop the entrepreneurial thinking and action of all employees. The plans were published by the end of the same year, to be achieved by the beginning of 1993. One hierarchical level was cut, and the organizational structure was changed into a two-type hierarchy with a clear distinction between functional and managerial competencies which often were not identical. Even the strong hierarchical reporting system was abolished.

Management levels were separated into the directors' level, the upper management circle and the management circle. With this structure it was even possible to have an employee who belonged to the management circle and at the same time headed a project related to the first reporting level, with a director working under him. Cross-departmental project teams were to have a key role in the development of the group. Within these task oriented teams, functional expertise was required. "Knowledge instead of power and status" became a guiding principle. Know-how transfer was to be realized by intensive job rotation of managers, causing each one to feel at home in any department of the DBAG group. This would lead to completely new management behavior. The manager had to set goals and control whether the goals were met. The intent was also to no longer control the work of employees. To become more flexible, efficient communication had to be strengthened, hierarchical thinking had to be abolished and managers would have to take responsibility as entrepreneurs.

As every department - consulted by specialists from the personnel department - developed its own organizational model, DBAG's management expected the improvement of both the actual acceptance for the new model, and of the teamwork in the new model. In the beginning, this model was supposed to have caused a lot of frustration and fear among managers reflecting on their status symbols and their own past career path opportunities.

As Edzard Reuter put it in 1992: "We now have the impression that the time has come when we really can implement broad-reaching radical changes, which we had perceived to be necessary much earlier." This was seen as "the heart of revolution" taking place at Daimler-Benz. Slicing through the bulky bureaucracy

to decentralize the entire business meant "giving more responsibility to more people and asking them to participate in the success of the company itself."

Political framework

As "knowledge is power", information provides the opportunity to influence. Therefore this topic should be discussed under the political framework. Information obtained via the establishment of a shared horizon of understanding could also affect the identification of the employee with the company (and therefore could also influence the cultural framework). Information may also be discussed in the cultural context, when it triggers modifications of behavior.

At the end of the 1980s, human resource management at DBAG used information as a tool to enhance the identification of the employee with the company. Information for the organization's members, on the one hand, had to be clear and definite and, on the other hand, it had to both trigger and justify the necessity for change. Information had to communicate the possibilities for and the standards of the organization, as well as for the individual employee. These possibilities and standards had resulted from the transformation process. This necessity was especially true if the political arena was to be suddenly widened by acquisitions. The quantity, the subjects and the interconnection of negotiation processes quickly became complex. Until 1989, a shift of negotiation processes towards a horizontal direction, or between the subsidiaries, could be found in general at DBAG. The simultaneous competition and cooperation between the DBAG subsidiaries was considered as positive - encouraging both the motivation and the creativity of employees.

After establishing the management holding structure in 1989, the vertical negotiation processes concentrated on the distribution of competences (influence as well as ability) between the holding company and the subsidiaries. At that time, the subsidiaries struggled for independence. This had a natural impact on the conflicts between the subsidiaries, for example in the allocation of resources. One potential source of conflicts lay in the parallel positions of the subsidiaries' heads as members of the holding company board. This could not be avoided in the establishment of the holding company.

In general, there has been an increase of political processes which were met by the DBAG management with an equal level of responsiveness. An analysis of the annual reports underscores this tendency. A similar development may be identified in the cultural framework described below.

Cultural/human resource framework

The mechanism for the termination of employment, an important tool of HRM, had been strengthened further. The strong participation of employees showed the high acceptance of this management tool and indicated their identification with the Daimler-group.

Beginning in 1985, employee development enjoyed an increasing priority. Education in the new technologies was mostly accomplished through on-the-job workshops. Since 1987, the professional and individual development of employees had been supported through systematic qualification programs. In 1988, the first groupwide education systems were developed.

Since 1988, the human resource management concentrated on the following aspects:

1. Groupwide exchange of managers to improve the integration of all DBAG parts, as well as to facilitate the transfer of know-how.
2. Groupwide training programs to promote dialogue regarding the DBAG business policy at the senior management level. The goal was to develop a mutual understanding for questions concerning leadership at DBAG.
3. Further development of language programs in order to meet the increasing internationalization of businesses.
4. Internal communication - periodic information from the senior management level about questions concerning the business - and human resource policy aimed at furthering employee identification with DBAG.

In the phase of implementation, from 1989, the realization of organizational change was the top priority of the human resource department. However, in 1990/91 there was a shift towards an emphasis on strategic concepts for HRM. These concepts defined areas which focused mainly on the integration of DBAG subsidiaries, and on the internationalization of the employees. The later aspect showed that DBAG's HRM wanted to master organizational change through systematic employee exchange and development programs.

In cultural aspects, substantial frictions arose beginning in 1985 with the acquisitions of Dornier, AEG, MTU, MBB, and others. Those companies had their own distinct corporate cultures, which had developed over decades, and which were often times related to founder families (as in the cases of Dornier and MBB).

With the "purchase" of those cultures, the influence of the traditional Mercedes values was diminished in the group. The process of displacement led to diverse cultures within the overall group. These cultures were separated by former

corporate boundaries. DBAG tried to tackle this development through the propagation of an integrated group culture, the means of management development programs and systematic information. However, the group culture was not directed at the subsidiaries, as they had been promised further development of their own cultures. In this regard, the group culture could be interpreted as an attempt to build bridges within the DBAG group.

The groupwide exchange of senior managers and their periodic training programs, which was mentioned previously, was intended to improve the knowledge and the understanding of other cultures within the DBAG group.

Annex: the years 1995 - 1996

The succession of Edzard Reuter as Daimler-Benz' chairman by Jürgen Schrempp, DASA's CEO in May 1995, stands for a turning point of the recent diversification history. In the short timespan of some weeks in 1995, information about Daimler-Benz' performance changed from positive to disastrous. At the shareholders' general meeting in May 1995, Edzard Reuter announced a normal profit and the proposal was made to increase the dividend from DM 8 to DM 11 per share. In July 1995, the new chairman Jürgen Schrempp revealed the expected negative results for the current business year. Major changes in the DASA and AEG subsidiaries and the dominance of the Mercedes-Benz automotive division resulted in the reformulation of the vision of an "integrated technology group" to a "mobility group" (automotive, railway, aircraft).

DASA faced major challenges: the Dornier mid-size plane DO 328 (negligible sales), the acquired Dutch aircraft manufacturer Fokker N.V. (too slow a pace of integration) and the propulsion manufacturer MTU (difficulties in finding international competitive alliances) were all three confronted with the low exchange rate for the US-dollar as well as a global overcapacity in the aerospace industry, leading to fierce price competition. The "Dolores" restructuring program (dollar low rescue) results in the further redundancy of 8.800 jobs in DASA between 1996 and 1998.

The 1992 acquired Dutch aircraft manufacturer Fokker N.V. had accumulated such a high debt level by the end of 1995 that only a capital infusion by DASA (hfl 1 bn) and the Dutch government (hfl 1.3 bn) was considered a sufficient support. With the reasoning "profit is more important than sales volume" DASA decided to cancel all payments to Fokker in January 1996, leaving behind a company close to bankruptcy. Fokker's shut-down resulted in nonrecurring charges for the Daimler-Benz balance sheet of DM 2.3 bn. Plans to sell the majority stake in the aircraft manufacturer Dornier GmbH are still confronted with resistance of family minority stakeholders. But Daimler was successful in selling the loss making Dornier Medizintechnik (medical equipment) to the

Singapurian STIC group in February 1996. The only DASA business fields working profitably are aerospace and defense (representing only 31% of DASA's sales).

The 1995 restructuring, consolidation, and final closure of the AEG headquarters resulted in costs of DM 1.5 bn (see above for details).

In 1995, Daimler-Benz faced an overall loss of DM 6 bn. DM 2 bn operating profits of Mercedes-Benz were insufficient, contrasted with nonrecurring charges of DM 5.3 bn in 1995 (DM 2.3 bn Fokker, DM 1.5 bn AEG, DM 0.5 bn "Dolores", DM 1 bn various issues) and another DM 3 bn operating losses at DASA and AEG.

Confronted with this miserable performance Edzard Reuter - who embodies the diversification strategy between 1985 and 1994 - resigned as a member of the Supervisory Board of Daimler-Benz in February 1996. Although the entire Supervisory Board had to agree to every major investment decision in the past, no other personal consequences have been drawn yet.

Prospects

The change process of the Daimler group is not yet complete. Four years after setting up the holding structure, the holding company of Daimler-Benz AG and its three subsidiaries Mercedes-Benz (automotive), DASA (aerospace, aircraft, defense), and Debis (services) are still "digesting" the process of change.

Edzard Reuter's original idea of financing the new technologies by means of the "cash-cow" of the automobile was affected by the sudden downturn of the European car market in 1993. Additionally, the demand for other product groups, such as civil aerospace and armaments, has been affected by economic and political influences. One of the essential questions facing the DBAG group in the future will be how to finance the further integration and conversion of traditionally armament-dependent businesses.

The DBAG research center in Ulm, Germany, is seen as an important step towards generating technology synergies. In Ulm, 500 scientists are conducting basic research for the entire DBAG group, while subsidiaries perform applied research, developing special product lines.

Despite structural efforts and successes towards integrating the DBAG group, "DBAG thinking" has gained a foothold only in senior management levels. As described in this case study, the cultural framework of the change process has been far too neglected, or has simply focused only upon senior management. Trends in the decentralization of authority and responsibility are now visible, along with flatter hierarchies and improved communication, which serve as

facilitators across functions and hierarchical layers. New types of conflicts of interest between centralized and decentralized units may also be anticipated.

Interpreting the management decisions made in 1995/1996 and the reformulated strategy of a mobility group, one cannot neglect a tendency of the Daimler-Benz group to return towards its origin as an automotive manufacturer. Not only have all diversification acquisitions been financed by the profits of Mercedes-Benz (totalling DM 12 bn), but in addition the automotive business remains the only constant source of cash flows necessary for the restructuring and (potential) integration of the three subsidiaries. There are big question marks whether Mercedes-Benz will succeed with its ambitious strategy to open the product portfolio towards the mass market (A-class, Swatchmobil "Smart"). The number of cars sold is planned to increase by the year 2000 to a level of 1.3 m (from 580.000 in 1995). Of special interest is the question how the image of Mercedes' upper car segment will be affected by this opening. If this mass market strategy should fail, there will be only a small financial protection shield in case of any following disturbance in other businesses in the Daimler-Benz group.