UNIVERSITA' DEGLI STUDI DI PADOVA

DIPARTIMENTO DI SCIENZE ECONOMICHE ED AZIENDALI
"M.FANNO"

CORSO DI LAUREA MAGISTRALE / SPECIALISTICA IN

BUSINESS ADMINISTRATION - ECONOMIA E DIREZIONE AZIENDALE

TESI DI LAUREA

"A MULTIDIMENSIONAL VALUATION MODEL OF M&A TRANSACTIONS: THE DAIMLER-CHRYSLER AND THE FIAT-CHRYSLER CASES"

RELATORE:

CH.MO PROF. FABIO BUTTIGNON

LAUREANDO: ROMAN INNERBICHLER

MATRICOLA N. 1103684

ANNO ACCADEMICO 2015 – 2016

Il candidato dichiara che il presente lavoro è originale e non è già stato sottoposto, in tutto o in parte, per il conseguimento di un titolo accademico in altre Università italiane o straniere.
Il candidato dichiara altresì che tutti i materiali utilizzati durante la preparazione dell'elaborato sono stati indicati nel testo e nella sezione "Riferimenti bibliografici" e che le eventuali citazioni testuali sono individuabili attraverso l'esplicito richiamo alla pubblicazione originale.

Firma dello studente

____

Table of Content

1. Abstract

The trend towards worldwide globalization, intense international competition as well as the rise of free trade unions has led to new and unknown economic circumstances. Most of the companies had to admit openly that their own resources would not be sufficient in order to expand globally and to stay competitive in the future. This reflects the tendency of companies to expand internationally through a series of strategic alliances and partnerships, same as alternatively through the idea of growing by merging or acquiring competitors or strategically important companies. The highly competitive field of producing and selling automobiles was one of the first sectors where the new merger wave of the early 2000s appeared. Managers expected that the obtained synergies, on the one hand, were essential to surviving and remaining competitive in the future and, on the other, would justify high premiums paid for the acquisition of targets. However, as Camara & Renjen (2004) stated, more than half of the M&A transactions fail to create value. The most well-known case is the failed fusion of Daimler-Benz and Chrysler, generally known as the "Merger of Equals" (Finkelstein, 2002) in the early 2000s. However, what were the determining factors of the failure?

Despite this bad example, the automotive sector has recently seen a fusion of two major players namely Fiat S.P.A. and Chrysler Group LLC, which together formed the newly founded entity of Fiat Chrysler Automobiles N.V.

This thesis aims to accomplish three objectives. In the first part, the theory of value creation in M&A activities will be explained, as well as the empirical results of the success drivers in those transactions. The entire process of merger and acquisition transactions will be described and analyzed, with a focus on the most important steps toward a successful implementation.

The aim of the second part of this thesis is to explore the main differences of the Fiat-Chrysler deal in comparison with the failed merger of Daimler-Chrysler and to quantify the value created by FCA through its various synergies and improvements.

Besides the cultural differences, the legal structure as well the different approaches, the main goal of this thesis is to give an analysis of the macroeconomic circumstances as well as the general compatibility of the two merger candidates. Looking at the empirical results, the research of pre-merger success factors and the post-merger integration process, I am trying to identify the distinctive factors for a successful merger or acquisition.

2. Mergers, acquisitions and value creation: an overview

2.1 The concept of growth

Enterprises seek growth. The reasons why corporations want to grow, however, can differ greatly. Riley (2016) emphasizes five major reasons, namely:

> Profit motives: Companies try to grow in order to obtain higher profits and, therefore, better returns for their shareholders. Secondly, the share price and hence the market capitalization depend on the growth predictions.
>
> Cost motives: By growing the business, most of the companies expect to achieve different economies of scale or scope that lead to lower average costs.
>
> Market power motives: A company may want to become large in order to increase its market share and therefore archive an improved pricing power as well as a better monopsony power.
>
> Risk motives: By increasing size through growth, diversification of sales and income can be obtained. The smoothening of earnings leads to a decreased probability of default.
>
> Managerial motives: Lastly, growth can also be explained in the managerial desire to expand as well as their compensation plans, which are often correlated with some key financial ratios.

Gümüs & Apak (2011) went further and described the enterprises' quest for growth opportunities as the most viable strategy in order to maintain competitive advantage and profitability, two basic aims of every business.

However, growth can be achieved throughout different ways. The most basic and natural form of growth is the concept of organic growth. The companies rely exclusively on their own resources and expand their businesses by accessing new markets, launching new products, and increasing the consumer base or through new sales.

The traditional way of growing has definitely its advantages and upsides.

Organic growth gives corporations the possibility to better coordinate and manage their expansion. In addition to that, it is generally agreed that this strategy of growing is relatively inexpensive, given that often most of the funding sources stem from retained earnings. Lastly, communicational and cultural hurdles do not appear in comparison to external growth strategies.

On the other hand, the downsides that are associated with internal growth should not be overlooked. Firstly, the company's plan to grow can be thwarted by its competitors. Secondly, the obtained growth rates are minor and less predictable than the one that can be obtained from a strategy of external growth. Thirdly, legal barriers do limit the possibility of accessing certain markets. The best known example is the Chinese market, where the government has imposed a law that allows foreign automotive companies to access the market only if they cooperate with a local car producer.

Meanwhile, many other corporate growth strategies have become more and more important. An alternative strategy of growth it the acquisition of resources of other companies or the drafting settle agreements. These strategies have proven to be attractive to many management boards. As has been mentioned already, the general assessment and definition of success nowadays depends majorly on the annual growth rates of sales and earnings. Hence, external growth strategies are a quick alternative for managers to boost their performance indicators. However, the fear of shareholders that value will be destroyed is often not ungrounded.

The essential question, whether growth through acquisitions or merger create substantial value for the shareholder of the acquiring firm, has been discussed sufficiently. The value creation issue, however, will be discussed in the next chapter.

Providing accurate definitions is key in order to understand the differences in external ways of growing. Reddy defines three major categories of inorganic external growth strategies (Reddy, 2015).

A. **Strategic Alliances**

B. **Joint Ventures**

C. **Amalgamations**

For Gümüs & Apak (2011), strategic alliances are "agreements between two or more independent companies which come together to cooperate on the basis of a specific strategic aim. The different companies support and equip the alliance with resources of different kinds, like capital, know-how, production inputs or patents. The hope is that the combined an alliance will bring greater advantages and yield more important rates of growth, than would otherwise be achievable by each company separately.

Reddy defined joint ventures as “two or more organizations creating a new organization, which characterizes ownership, structure, mission, policies, governance, procedures and so on for achieving certain goals, while the predecessor organizations still exist” (Reddy, 2015, p. 253). Joint ventures are an intermediate level of forms of cooperation. Legally independent, the newly founded company can act freely and shares most of the synergy effects of a merger or acquisition. The fact that the original companies still exists, guarantees a survival in the case of failure of the joint venture. Furthermore, the entities do not have to share everything and can keep important assets out of the deal (i.e. patents).

An amalgamation on the other hand, is a collective of several different external growth strategies, namely mergers, acquisitions, takeovers, buy-outs, and de-merger activities.

A merger is the combination of two companies into a new entity, while an acquisition, instead, describes the purchase of one company by another. (Whitaker, 2013)

Takeovers or buy-out consist in the decision of a firm to acquire the control of the target company with or without the consensus of the management of the target. The consensus determines if the deal is considered as friendly or hostile. (Reddy, 2015)

M&A are nevertheless considered to be the most important category. In general, there are three different types of fusions or acquisitions:

> **Horizontal mergers:** a business combination at the same level of production and trade. The reasons for those mergers are mainly potential economies of scale, the acquisition of know-how or the obtainment of better conditions on the suppliers’ side.
>
> **Vertical mergers**: can be subdivided into backward and forward mergers. The former describes a linking between an acquirer and a level upstream of production or trade (suppliers). The latter, on the other hand, defines the fusion of an acquirer and a level downstream (clients). The benefits are in cost savings due to the improved management of inventory and logistics.
>
> **Conglomerate mergers:** encapsulates the fusion of two businesses with uncorrelated levels of production or trade, in other words businesses of different types. The major driver for such M&A’s is risk diversification in growth patterns.

For the further elaboration of the theory of M&A, it is crucial to fully understand the differences between merger and acquisitions. A fundamental characteristic both of them share is that ownership of both existing firms changes.

The acquisition describes the purchase of a stake in the target company. The acquired company, however, remains a separate legal entity and therefore keeps its independence. Furthermore, the acquisitions are subdivided into two major categories, i.e. asset deal and share deal.

Asset deal consists of the transfer of tangible- or intangible assets and hence the debit and credit positions of the target are shown separately in the balance sheet of the acquirer. The difference of the purchase price and the current value of the assets is called "goodwill" and implies an annually conducted impairment test to check for eventual depreciation.

The transfer of ownership of the target company instead, characterizes the share deal. While the transaction itself is less complicated, there are nevertheless some features that merit specific mention. *The acquisition can be of the full stakes (100%), majority stake (>50%) or just a minority stake (>10%)*

Mergers, on the other hand, are characterized by the full incorporation of the target's assets and the discontinuation of its legal entity. This operation is called merger through absorption. In other words, a new entity is founded, containing all assets and liabilities of the both businesses (merger by means of new formation).

Mergers are characterized by a combination of businesses with the highest degree of intertwining, mainly because at least one entity has to cease and hence to give up its legal independence.

2.2 Motivations for M&A activities

The reasons for merger and acquisitions are numerous and very different. Furthermore, they tend to vary over time and among sectors. However, it can be said that there are some fundamental theories that explain the key motivations.

2.2.1 The Synergy Theory

The most prominent theory for mergers and acquisitions is the synergy-theory or efficiency-theory. The idea is that two or more businesses combine their assets and resources in a way that increases value. The word synergy originates from the Greek language and literally means "collaboration" in the sense of cooperation.

However, economists look at the total effect of the combination of assets comparing them with the results and values of the companies prior to the merger, which unfortunately often turns out to be negative. Ansoff distinguished four different types of synergies (Ansoff, 1988):

1) **Synergies of sales**: through the usage of the combined channels of distribution, marketing or the inventory systems, sales improvements or cost reductions arise.
2) **Synergies in production**: the increased degree of utilization of plants or machinery, personal or other capacities leads to cost reductions, which are mainly explained by the theory of learning curve and the concept of mass production.
3) **Synergies in investments**: the combination of investments can lead to considerable savings applying an improved cost of capital rate or by cutting overlapping investments.
4) **Synergies in management:** managerial skills and expertise can be freely transferred within the new corporation and can also reduce costs or improve the overall efficiency.

Porter (1985) also tried to picture the concept of synergies. He considered synergies as being value chain oriented and called them "interrelations of business fields". More precisely, Porter identified three different forms of interrelations:

Material interrelations: Markets, Production; Supply, Technology; Infrastructure

Immaterial interrelation: Know-How transfer

Competitors interrelations: Overall positioning of the group

<u>Explanation of the origin of synergies</u>

The generally known concept of economies of scales describes the correlation between increased business size and the expected cost per unit. The falling cost per units can be explained looking at the fixed costs per unit that decrease when output rises. Applying this simplest theory of cost savings to the combination of business could explain most of the motivations for merger activities. However, there are several more.

The second category of synergies is based on the so-called theory of economies of scope. Economies of scope appear, if the production of two or more different products by the same company is cheaper than the production of those same products in two separate and independent companies. In the case of only two products, the following rule holds:

$$C(x1,x2) > C(x1) + C(x2)$$

There are several reasons for economies of scope. Sudarsanam (2010) named the examples of products that may share the same technological basis, similar market or consumer groups.

The concept of the experience curve represents a second explanation for obtaining synergy effects. Four different sources build the base for this concept:

1) **Learning effects**: per unit costs decrease through the learning process with increased accumulated output
2) **Technical progress:** the improved production through various technical innovations reduces the units' costs significantly
3) **Rationalization**: process and product innovations can also contribute to lower per unit costs
4) **Size effects**: economies of scale and the fix cost-degression effect

2.2.2 Transactions cost and Internationalization theory

The incomplete market intentionally creates transaction costs, such as cost for searching, contracting, informing, controlling, and so on. In other words activities that are involved around a transaction between two or more companies. The simple decision, whether a company should make or buy a product, can be deviated from this theory. The transaction costs heavily influence the decision and forms a second important motivation for M&A activities.

Williamson (1986) spread this theory in an attempt to try to categorize those costs and developed a market transaction theory with three different kinds of coordination forms: market-based, hybrid or hierarchical forms of coordination.

Moreover, the transaction costs can differ depending on the asset specificity of the corporation. Mergers can provide the possibility of relocating resources and increasing their utilization.

Based on this assumption, enterprises should organize and manage their business so as to minimize the sum of those transaction costs.

Boesecke (2009) states that following the transaction theory, business combinations are only efficient if the sum of production and transaction costs is lower than in market transactions.

2.2.3 The agency theory

The agency theory derives from the well-known principal-agent problem in economics. The agent is allowed to act in the name of the principal; however, the wealth of the principal is directly influenced by the decisions taken by the agent. Given the asymmetrical information, the principal might be faced to monitor the behavior of its agent, which creates significant costs.

In the field of M&A transactions, the agency theory is often used to explain certain merger activities. It could explain why an acquiring firm CEO may pay a premium to the target firm, given that it is not at his expense. Eisenhardt (1989)stated that business combinations might be useful to reduce asymmetries and hence costs of monitoring.

2.2.4 The resources dependency theory

The dependence on rare resources as inputs for the production can justify merger or acquisitions of suppliers. The resource dependency theory therefore stands for using M&A to guarantee or at least to reduce the uncertainty of the inflow of main resources in order to increase the long-term survival probability and independence of a corporation. The acquirer faces the opportunity to use the resources given in the target firm, leading to a total reduction in dependency. Pfeffer and Salancik (1978) named the RDT for the first time in 1978 in their publication of "The External Control of Organizations: A Resource Dependence Perspective".

2.2.5 The market theory

The market theory stands for the explanation of mergers as seen by the market. The market-based theory explains the success or failure of a business by the competitive situation of a company's external product markets. The strategy plan of a company following the MBV depends on its customer's needs and behavior. The management is asked to analyze the environmental circumstances and tries to position the business in the most attractive corner. The resources in the market- based view are homogenous and mobile. However, the starting point of the strategic positioning is not the combination of resources like in the resource-based view. As mentioned above, it always starts with the analysis of the market environment.

Porter (1985) tried to emphasize the importance of the market theory with his well-known five-forces model. In addition to the importance of the industry attractiveness, Porter highlighted the relative competitive positioning of the company within the industry.

The competitive position can be achieved by pursuing one of three generic strategies: cost leadership, differentiation or niche focus. However, the strategic position has to be defeated over time since it is dynamic and fast changing.

M&A gives the management a tool to quickly expand business fields or to implement a differentiation strategy by acquiring an interestingly positioned competitor.

2.2.6 The resource theory

Another approach is the resource theory. Sudarsanam (2010) states that a firm is formed of a collection of different resources, which can either be tangible like plants or equipment, or intangible like brands and patents and finally of organizational nature like the corporate culture. The quality and variety of these resources defines the competitive advantage of a business.

Furthermore, also the ability of the corporation to maintain their core capabilities is essential for staying competitive in the long run.

Firms can develop their resources internally and organically, however, in order to close possible gaps between their competitors, the M&A path could provide a quick fix in order to acquire the resources additionally desired.

The resource-based view therefore explains the ambition of corporations to create unique resource settings, which gives them a strategic advantage, at least in the short run.

<u>Overview of the different theories explaining M&A activities:</u>

THEORY	**MOTIVATION FOR M&A**
Synergy Theory	▪ The potential savings in synergies justify the premium paid ▪ Potential earnings by cross-selling or the common use of distribution channels can be unlocked
Transactions cost and Internationalization theory	▪ Efficient business combinations are given if the sum of transaction and production costs is lower than in market transactions
Agency theory	▪ M&A might be a tool to reduce information asymmetries and agency costs
Resources dependency theory	▪ A business combination can secure the long-term survival by guaranteeing the inflow of critical resources
Market theory	▪ M&A allow a quick access to new markets or to regulated markets ▪ M&A provide the possibility to acquire or merge with other companies in order to implement a differentiation strategy

	▪ Horizontal merger can help to apply cost leadership by providing potential economies of scale
Resource theory	▪ M&A might allow access to crucial resources with limited availability ▪ M&A give the acquiring company access to valuable expertise ▪ M&A provide the possibility to transfer complementary resources in order to use them more efficiently

2.3 M&A in practice

Having considered the most important theoretical theories underlying M&A activities, the focus should now shift to why M&As exist in practice and why they tend to appear in waves. There are more than just theoretical concepts that describe the tendency of managers to prefer external growth over internal growth. Interestingly, experts instinctively think about the motives of managers to run M&A transactions, while the motives of stakeholder groups are only barely or not at all mentioned. Gerpott (1993) explains this phenomenon on the basis of the fact that the decision to conclude M&As depends majorly on the management team of the buying company and the shareholders of the target company.

It is generally agreed, that a single motive cannot explain merger activities most of the time. Instead, a complex matrix of different motivations is considered to be the make-up of any M&A.

2.3.1 Managerial Motivations for M&A activities

The reasons why M&A occur in real life are numerous and the motivations for it vary over time. The original idea of M&A was definitely supported by the operational synergies of two merging companies. Johnson and Scholes (2008) subdivided the motivations for mergers and acquisitions into four different categories.

1. **Economic motives**
2. **Strategic motives**
3. **Financial motives**
4. **Managerial motives**

Economic motives

Despite many different motives, the category of economic motives forms undoubtingly the most influential for managers. The fundamental idea behind it is that competition on the free market is based majorly on costs, prices and perceived benefits. According to those principles, M&A is exclusively driven by the desire to produce more efficiency and therefore more cost effectiveness.

1) Economies of scale and scope

Still the most straightforward reasons for M&A activities are the economies of scale and scope. In fact, a company almost always is able to reduce its per unit cost by increasing the scale of the production after a successful implementation of the target company. The production may have a fixed component of costs, like administrative costs, and thus the per unit share can be diminished by increasing the total amount produced.

The economies of scope, instead, describe the cost advantages multi-product firms have. Selling several different products in one single multi-product firm can lead to significant cost savings compared to individual firms selling those products. The most-known examples are the common usage of the R&D department or the advantages one single umbrella brand may provide.

2) Transaction costs and vertical merger

The relationship between a producer and its supplier, i.e. the vertical component, creates a substantial amount of transaction costs. In the case of a market relationship, costs emerge from contracting, monitoring and enforcing contractual agreements in cases of non-compliance.

The alternative is to internalize such transactions by incorporating the supplier, either through its acquisition or the conclusion of a merger. The vertical integration eliminates transaction costs and allows an effective allocation of resources like capital or labor. The desire to internalize more and more, derives from the information asymmetry in the markets.

Strategic motives

Strategic motivations for merger tend to be the second most important reason to justify the majority of the transactions. Understanding the strategic position of the company is key for every manager in order to take the right decision and to determine the appropriate growth plan.

Proactive strategic thinking could help the cooperation to predict future trends and to improve its strategic position by acquiring/selling businesses. The usage of M&As can accelerate growth in specific key segments.

The activities linked with the process of strategic thinking are for Zotti (2016) the following:

- Definition of its own business segments
- Identification of key competencies
- Analysis of market dynamics
- Cost comparison acquisition versus organic growth

Several well-known tools can help diagnose strategic capabilities. Johnson and Scholes (2008) named the value chain analysis, the value network analysis, activity maps, benchmark analysis, and the SWOT analysis as the most important to consider.

Practically, the reasons for M&A activities from a strategic point of view could be the following:

1) Diversification

The analysis of the current position of a company and its business fields with the tools already considered could lead managers to undertake M&A activities in order to diversify rapidly and to position the firm in higher-growth and higher-margin products or markets. The diversification smoothens the income stream of the enterprise and leads to a less vulnerable position. The decision of the management team either to diversify internally or to acquire the necessary profile company is often influenced by the time and market pressure. Therefore, managers tend to prefer M&A in order to react quickly, even accepting higher premiums.

2) Strategic Realignment

A second motivation for managers, always within the strategic motives, is the strategic realignment, which typically is the acquisition of capabilities or know-how in order to adopt to environmental or political changes more rapidly in comparison with internal structural changes. The trigger for such operations can be technological revolutions like the recent electric car wave in the automotive sector or regulatory/political changes like pollution norms or industrial standard settings. However, also the contrary example of deregulation could cause M&A waves by lowering the market entry barriers for new players. Especially the healthcare, telecommunication, media and defense industry have been subject to significant deregulation laws recently.

3) Market power

Lastly, management boards appreciate the idea of boosting the market power of their company through an increase of selling prices of their products. A highly concentrated industry, after horizontal merger waves, typically leads to higher consumer prices. Despite that basic logic, it has to be said that most of the M&A transactions have to be approved by the local cartel bureau whose main goal lies in the conservation of a competitive market, which is to say the prevention of de-facto monopolistic industries. The market power theorem might be more applicable in strongly regulated environments like the pharmaceutical or energy industries.

Financial motives

The second largest reason for managers to push for M&As, lies in ability of such operations to lead to a financial betterment of the company. Obviously, all of the motives have a financial background and need to generate rates of return that are satisfactory to justify the merger or acquisition. However, there are nevertheless some motives whose rationale rests exclusively on the financial benefits M&As can yield for the company.

Cost of Capital

The highest saving potential lays in the reduced cost of capital (WACC) of the combined companies in comparison with the standalone costs. The reduced WACC have different motivations:

a) By acquiring/or merging with a company and an uncorrelated business, a diversification, and therefore a reduction, of the systemic risks can be obtained. The smoothening of the income and profit streams reduces the risk of insolvency in general. These usually correspond to a lower cost of capital.

b) Larger companies have an easier access to capital markets and more alternative ways to raise capital. More possibilities often correspond with a lower cost. Furthermore, Weston and Chung (1997) state that the increased debt capacity, in particular, allows the company to save capital costs.

Tax Savings

Taxation motives represent the second most important category within the financial motives. Tax savings may also result from the tax loss carried forward by the target company. Those can be used to diminish future tax payments of the acquirer which themselves can potentially lead to an improved cash flow statement. Current losses of a target company could also partially justify its acquisition, as it would allow the acquiring company to offset huge tax payments.

Managerial motives

Even though we touched several financial and strategic reasons underlying the pursuit of M&A operations, a third and mostly unknown category of motives should be added to the list. Interestingly, these motives are not solely linked to economic considerations.

Empire-Building Theory

Trautwein (1990) described an interesting concept in his study. The empire-building theory states that managers try to maximize their own utility when deciding to conclude mergers or executing such transaction. The basic idea is that the management board follows different interests that do not always align with the interests of the majority shareholders. The underlying problem is the compensation of top managers: in fact, a manager's remuneration is often correlated with the company's size. However, other studies added non-monetary reasons to the empire-building theory. Some authors named the "increasing prestige" as the main factor; others just called it "ego". However, it is generally agreed that social prestige is correlated with the actual size of the business.

Hubris (Managerial Pride)

Overconfidence plays an important role in the evaluation process of a possible target. According to the so-called evaluation theory, the M&A activities are planned with an overestimation of values in comparison to the market valuation. The board of the acquiring company often believes that it alone is capable of assessing the possible synergies and benefits that can derive from a merger. A second scenario describes the fact when managers think they have found an undervalued company that might be sold at a higher price. The excessive optimism of acquirers often leads to overvaluations of the target firm. As a result, the acquirer is likely to overpay.

2.3.2 Managerial Motives – a STUDY

Mukherjee, Kiymaz and Baker (2004) analyzed in an interesting study the most important reasons for M&A. The respondents, CEO or responsible people for M&As, were asked to rank their motives.

Motives	n	%
Take advantage of synergy	28	37.3
Diversify	22	29.3
Achieve a specific organizational form as part of an ongoing restructuring program	8	10.7
Acquire a company below its replacement cost	6	8.0
Use excess free cash	4	5.3
Reduce tax on the combined company due to tax losses of the acquired company	2	2.7
Realize gains from breakup value of the acquired firm	0	0.0
Other	5	6.7
Totals	75	100.0

Table 1 - Source Mukherjee, Kiymaz & Baker

The exhibit ranks the motivations given by the managers. The result is that synergy, diversification and/or restructuring motivations accounted for about 80% of the total answers given. Even if the survey was performed in the 90ies, recent studies have further confirmed this ranking.

Mukherjee, Kiymaz and Baker also asked the participants to name the top sources of synergies to managers whose companies had recently been involved in synergy-related mergers.

Source of Synergy	n	%
Operating economies (resulting from greater economies of scale that improve productivity or cut costs)	62	89.9
Financial economies (resulting from lower transaction costs and tax gains)	4	5.8
Increased market power (due to reduced competition)	3	4.3
Differential efficiency (due to the acquiring firm's management being more efficient)	0	0.0
Totals	69	100.0

Table 2 - Source Mukherjee, Kiymaz & Baker

The outcome was that operation economies accounted for approximately 90% of the total answers. Market power effects and financial benefits proved to be mostly insignificant. The study confirmed the general assumption that M&A activities are mainly justified by operational synergies and potential reductions in productivity and cost cuts.

2.3.3 The M&A Process

Generally, the public notices M&A transactions only when the conclusion of a significant deal is mentioned in the news or television. The signing of an M&A is definitely an important step as it finalizes the pre-transaction activities. However, M&A has to be seen as a complex process over time, where the contract signing is only a small fraction.

The different steps are numerous, Bausch (2003), however, named four different processes which can be divided into three major phases:

1) **Pre-Transaction Phase**
2) **Transaction Phase**

3) Post-Transaction Phase

Pre-Transaction Phase

The process of a possible merger or acquisition made by an acquirer starts with a strategic analysis of its position on the market. Porter's five forces model often provides a solid base in understanding the environment in which the company is placed. Secondly, a general SWOT analysis provides useful information regarding future opportunities and threats the firm may face. The management board has then to decide how they would like to guarantee the company's future competitiveness. Such operations require nimble and creative decision-making.

The board also has to name and specify possible synergies and, in that respect, consider the convenience of future M&A transactions. Essential in this regard, is the development of a common strategy plan for the entire business combination. DePamphilis (2014) notes that according to many successful acquires, M&As were not seen as a business strategy but rather as a means of implementing a business strategy.

Acquisitions may accelerate the firm's growth, however it is questionable if the growth remains sustainable. These decisions are often at the whim of the acquirer's vision of what the company should be as well as the specific implementation strategy he wishes to adopt.

The business plan quantifies the mission and strategy and materializes the words. The decision whether a business combination makes sense or not, remains a top-level management task.

To ensure that a possible acquisition is managed in a proper way, the senior management has to provide guidance for the M&A team as well as a timetable that recognizes all key events in the acquisition process.

Before starting the screening process for possible candidates, the M&A team has to be provided with the determining criteria e.g. growth rate, location, kind of business model.

The acquisition or merger process starts with the application of screening profiles to identify possible candidates and preliminary confidential interviews to fully understand the business model of the target company. Moreover, it is important to gather as much information as possible to find a candidate that represents the best strategic or financial fit. An intense preliminary analysis can avoid information overload.

After the scouting and screening of prospective targets, confidentiality agreements are signed with the best candidates. Their goal is to ensure confidentiality while the M&A team works through the legal and financial documents provided in the so called "data room", which is a physical or virtual room that holds important documents needed in order to understand the strengths and weaknesses of a company as well as the potential risks of a possible deal.

Transaction Phase

The second stage consists of formulating a potential purchase or merging scenario, which is satisfactory for both sides. Bausch (2003) subdivides the transaction phase in to sub-processes, the negotiation and the planning process. The latter consists of the fundamental decisions about the design of the possible business combination.

<u>Planning process</u>

The M&A teams try to concretize potential synergies and savings and break them down to numbers in order to value the target company. The planning contains also activities that anticipate future tasks and the conditions in the business combination. Pre-closing planning can further help to facilitate the integration process after a possible conclusion of the deal. It might accelerate the entire process, because a clear idea of the future role of the target exists and goals and time limits were already set.

The valuation is definitely the most critical part of the entire M&A process. The acquiring companies want to avoid overpayments that may destroy shareholder value.

Values and prices obtained by similar transactions can provide a first glimpse at the possible range of prices. However, the price paid might be composed of very different numbers. DePamphilis (2014) names the current-year earnings' multiple as an applicable measurement of the value. The current year's earnings are multiplied with a previously agreed-on price-to-earnings multiplier. Nevertheless, the evaluation may be conducted in a different way. A second scenario could be that the purchase price consists of the standalone value of the target to which is then added a certain premium paid by the acquirer in order to compensate the shareholder, based on the calculation of possible synergies and cost savings. The standalone value often corresponds with the enterprise value (EV) minus the net debt of the target company.

Preliminary legal transaction documents also include the term sheets, which outline the primary areas of agreement and, at the same time, act as a basis for further negotiations. Those documents consist of a purchase price range, the description of the assets/shares willing to buy, limitations on the use of data and no-shop provisions in order to avoid sharing the proposals with other parties.

Negotiation process

The last stage in the transaction phase consists of working closely with all the different advisors in order to be able to provide a solid purchasing offer. The offer includes all details about the transaction itself, the ownership transaction, the price paid, and information on the specifics of the closing of the deal, such as the payment method, i.e. payment in cash, shares or a combination of both of them. Successful negotiations are characterized by the fact that both sides search jointly for a solution.

The negotiation process consists also of creating a financing plan, which is often necessary to understand the maximum amount a buyer can offer. Furthermore, financing plans are used for negotiations with external capital lenders in cases where the financing is not exclusively made up by own reserves.

In addition to that, the acquiring company has to decide whether it is going to pay only by cash, by a combination of cash and shares or only by shares. The total consideration may be contingent on future performance and therefore, a portion of the purchasing price might be put in escrow for the fulfillment in the future.

The negotiation process ends with the signing of a contract that is the product of what the parties agreed on in the bargaining phase.

Post-Transaction Phase

The success of an M&A transaction is not defined by the signing of the agreement but rather by its efficacious implementation. Actually, the post-transaction phase forms the most important part of the whole M&A operation. The integration of the acquired company and the realization of the value adding activities are essential to call a transaction successful. Bierich (1988) defines success as the degree to which the set goals have been achieved, whereas the goal is defined as a planned position.

The post-merger success depends primarily on the awareness of the integration challenges and the degree to which those challenges have been addressed properly. Whitaker (2013) names potential pitfalls in his journal, including the following:

- Excessive focus on closing the deal instead of making the deal working
- Lack of focus on operational, cultural, strategic and organizational assessment
- Missing tracking system for synergies
- Overreliance on processes and avoidance of critical issues such as culture and politics.

Rührig (2009) worked on the integration problems after international mergers and concluded that the following motives can lead to substantial problems after an M&A operation:

1. Differing organizational structures
2. Misfit of organizational cultures
3. Lack of leadership skill at the top-level management
4. Personal resistance
5. Incompatibility of IT systems or distribution structures
6. Financial or legal problems

Integrational problems obviously create costs or diminish the potential synergy effects. Jansen (2003), however, provided a model to address the most influential and most critical motives for a successful integration. According to him and his 7K model, companies should be aware of the following core problems and provide plans before the integration process starts:

1. culture [cultural profiles can help to overcome with problems]
2. communication, [clear communication plans for staff, clients and supplier]
3. clients and partners [awareness of existing clients/partners and special treatment]
4. know-how [plans to avoid know-how outflow by layoffs]
5. labor [training plans and workshop inform staff about new career prospects]
6. controlling [effective control measurement displays the success or failure]
7. coordination [task forces can accelerate a successful integration]

Management teams should be aware of the potential pitfalls. A well-structured and sophisticated post-merger integration plan can help to overcome with most of the integration hurdles. It is important to focus intensively on the post-merger plan and its implementation.

2.3.4 Defining and measuring success of a M&A transaction

It is essential to define success of an M&A transaction. Generally, success equates to higher profits. Sometimes, the share price and market capitalization also play a significant role in the determination of success.

According to the finance perspective, shareholders are better off, if their shares gained value because of the acquisition. Susarsanam (2010) defines “better off” as the term that defines when the rate of return of the shareholders is at least equal to the cost of capital.

March and Simon (1958) criticized the sole focus on profitability. They suggest concentrating also on the stakeholders, such as creditors, suppliers, personnel, clients and local communities.

If the total satisfactory level beats the previous situation of the separated entities, the M&A can be considered a success.

Unfortunately, the interests of different stakeholders are often contradictory. The simultaneous fulfillment of all those different interests is hardly ever possible. In addition to that, an objective measurement of the degree of success is impossible.

Another fundamental issue in determining the success of a merger lies in the fact that, once a merger is conducted, it becomes nearly impossible to compare it to the performance these firms might have showed, had they been kept separate entities. A legitimate solution to overcome these issues is to take into consideration the pre-merger forecast for each of the companies and compare them with the actual post-merger or acquisition performance.

Jiang and Lin (2011) tried to apply an empirical perspective and analyzed the synergy effect and the actual performance post-merger of several international M&A transactions from 2004-2006. The econometric model included performance indicators, which were formed by selected ratios, as well as performance forecasts of firms that ended up not entering a merger deal. The outcome was that M&A produces positive synergy effects especially in the short run. However, the assumption of overall positive effects did not hold in the long run.

3. The Daimler-Chrysler case

3.1 The history of the two automotive colossuses

Daimler-Benz

In the late 80ies, the former extremely successful German luxury brand Mercedes-Benz was facing new and strong competitors. Especially the new luxury line Lexus of the Japanese giant Toyota was a serious threat to Mercedes-Benz's large market share at the time. The German company pursued a new strategy of cost reduction and an intense customer relationship. Success was not long in coming: in the course of a few years Daimler-Benz, the holding company of the Mercedes brand, hit new sales records.

Nevertheless, the car production of Daimler was twice as labor intensive as the production line of Lexus. In addition to that, the market share in the U.S. fluctuated around 1% (Standard & Poors Stock Reports, 1997). By finding an equal and committed partner, Mercedes-Benz hoped to cut the production costs as a result of significant economies of scale.

In order to better understand the corporate changes and roots of the organizational and cultural structures of the company, it is necessary to spend some time on the history of the well-known corporation. The Daimler-Benz Aktiengesellschaft (AG) was one of the first players in the automobile industry and was founded in 1899. The founders Karl Benz and Gottlieb Daimler formed the young corporation into the world's largest automotive manufacturer in 1910.

After the horrors of World War I and the destruction of most of the company's buildings, shareholders agreed that the only way to survive war to merge with "Daimler-Motoren Gesellschaft" (DMG), one of the largest competitors in Germany. The company's most popular brand, i.e. Mercedes actually derived its name from the Mercedes model series of DMG.

During the great depression, the company suffered huge losses and was close to bankruptcy. However, the years of crisis encouraged the unity and hushed the separatist within the cooperation.

The car enthusiasm of the head of the Third Reich brought the automotive firm back to profitable roads. Thanks to a series of promotions, tax breaks and the outlook of a massive highway-building program by Hitler, the company ran at full capacity.

However, with the start of the war, private car sales were banned and petrol was rationed. Not surprisingly, Daimler-Benz was becoming an important supplier of military equipment and had to stop the automotive production by 1944.

The post-war era was challenging, given that more than 50% of the plants were destroyed by ally bombs. A loan from several German banks and the Unimog model saved the company from bankruptcy. The economic boom in the 50ies boosted the growth and soon Daimler-Benz regained its title as the largest automobile producer in Europe.

At the end of the 60ies and during the early 70ies, Daimler-Benz pushed for further internationalization and was on the way to become a worldwide empire. Finally, in 1973 the foreign sales overtook the domestic numbers.

Interestingly enough, the oil crises of the 70ies had little impact on the performance of the German enterprise. Firstly, Daimler-Benz was growing at moderate rates, but steadily and relatively unaffected by ups and down in the economy. Secondly, they were able to respond properly to the aforementioned crises: the invention of the diesel oil powered 240 D, was tailor-made for the 70ies and its oil crises, since there had not been any restrictions on diesel.

During the 80ies, the company tried to expand further and diversify its businesses. Through a series of acquisitions such as the MTU or the Dornier-Werke, the enterprise gained additional self-confidence.

Jürgen E. Schrempp, later destined to become CEO of the group, was elected as chairman of the board of management of the DASA (Deutsche Aerospace AG) in 1989, a subsidiary of Daimler-Benz.

The early 90ies were characterized by the reunion of Germany. In addition to the new unknown political challenges, Daimler-Benz was facing significant problems by the end of 1993. Several diversification acquisitions had turned to loss bringers. Furthermore, 1993 brought the first loss in the company's income statement. However, it has to be said that the loss appeared exclusively under US GAAP, whereas under German accounting standards, the enterprise was still profitable.

The company announced drastic counter measurements in order to respond to the loss. Plants were closed, payrolls cut, and the core competences were strengthened. (Daimler-Benz, 1994, 1995)

In addition to that, Daimler-Benz started a lay-off wave and reduced its personnel only in Germany by 80,000 employees until 1996 (Daimler-Benz, 1998, p. 88).

In 1995, Daimler-Benz would account for another record loss, which led to the election of a new chairman, namely Jürgen E. Schrempp, who in May 1995 took on the task of bringing the company back to its former glory.

He had the vision of a new streamlined Daimler-Benz conglomerate and pursed it in an incredible manner. Under his coordination, many participations were spun off and costs were reduced. The power was concentrated at the Daimler headquarter in Möhringen. His plan consisted also of an incorporation of the profitable Mercedes department.

Following a confrontation with Schrempp, on January 16, 1997, Werner, chairman of Mercedes, and soon after Mercedes merged with Daimler-Benz into Daimler with its CEO Schrempp at the top.

Chrysler Corporation

Meanwhile, the Chrysler Corporation led the ranking of world's most profitable car producer. Especially their light trucks, vans, and large sedans fired the sales in the mid 90ies. The risk they took to keep old-fashioned and American spirit influenced in their portfolio when imports of Japanese and European cars rocketed paid off. The U.S. market share reached an all-time high of 23% in 1997 (Finkelstein, 2002). Interestingly, their product development costs were about less than 50% compared to Ford or GM.

Chrysler, the underdog among the three automotive giants in the U.S., had managed to become the third largest car producer after a deep crisis and quasi bankruptcy after World War II. With highly demanded models and high liquidity, it was generally agreed that the time was right for a takeover or fusion.

Chrysler Corporation's CEO Bob Eaton warned the shareholders, despite breath-taking profits and growth rates, of the dark future, filled with overcapacity scenarios, environmental concerns, and a retail revolution.

He described the prospective challenges with the perfect storm and said: "Don't go there. Be somewhere else, and don't do it alone." (Vlasic, Bill, & Stertz, 2001) He tried to align the shareholders to a probable merger with Daimler-Benz.

3.2 "The marriage under equals"

On May 7, 1998, Daimler-Benz chairman Jürgen Schrempp and Chrysler Boss Robert Eaton proudly announced the conclusion of negotiation and the official merger of the two automotive giants. Through the newly founded entity named DaimlerChrysler (DCX) the share-for-share exchange took place. This 37 billion Dollar stock-swap deal was considered as the largest transatlantic merger ever.

3.2.1 Motivations for the merger

Back in 1996, Daimler-Benz AG was still the largest industrial group in Germany with sales about roughly 70 billion dollar. Schrempp and its new policy of streamlining the group was successful and the company turned profitable after the greatest consolidated loss in 1995 in history. (Daimler-Benz, 1996, 1997)

The decision to concentrate on the automotive branch of the Daimler-Benz group was the handwriting of its radical chairman Schrempp. In 1993, Daimler-Benz consisted of several different divisions such as the DASA (aircraft, space, and defense), the transportation division (rail systems), the AEG (engines, turbines, cables, microelectronics), and the debis (IT-services, financial services, insurances, marketing services). (Daimler-Benz, 1994)

However, the passenger cars and commercial vehicles continued to be the driver for growth and brought the majority of operating profits. In addition to that, by analyzing the loss in 1995, which derived from the DASA division, it further confirmed that the path Schrempp proposed was probably the only way out of the crisis. The major achievements were the spin offs of Energy Systems and the Automation Division and the dismantling of AEG.

The automotive division of Daimler-Benz was mainly basing on the success of its Mercedes brand that was and still is a premium brand with limited demand. Back in 1997, the premium sector made up only twelve percent of the total market. Therefore, it appeared to be obvious that a significant expansion of the group had to be accomplished by a stronger focus on the mass-market.

Mercedes already launched the Smart and the A-Class in 1994 and showed commitment to enter in the small and micro-compact car segment, however, those cars were still excessively expensive for the emerging countries.

With these facts in mind, Schrempp told a team of people to analyze the mass-market producer and scan them for potential synergies. Important were the following constraints: the potential partner must provide profitable growth, its markets should not overlap and the partnership had to be balanced, because Daimler was not looking for a partnership, wherein it would become the junior member.

It was soon clear that General Motors and Ford were far too large for a potential partnership. Chrysler, instead, had 61 billion dollars in net sales in 1996, which was almost double the result of 1992. Their pretax earnings were around $6 billion. This tremendous success based on a record sale of 3 million vehicles in 1996. The lightweight trucks and minivans accounted for two third of the total sales. The strength of Chrysler came from a cost effective production, using an intelligent platform strategy that kept costs low. However, Chrysler CEO Eaton thought that Chrysler was not competitive enough in order to survive the challenges ahead. He was also out looking for a strong partner in Europe and in the emerging countries, where Chrysler did not exist.

On January 12, 1998, Schrempp for the first time discussed a possible fusion with chairman Eaton during the Detroit Auto Show. (Blaško, Netter, & Sinkey, 2000)

During the evaluation process of both sides, it appeared that according to the facts both candidates were ideal partners. Chrysler generated most of the sales in America and with low-price majorly lightweight trucks, whereas Daimler-Benz was focusing on Europe and emerging market and sold premium passenger cars. Therefore, they could complement each other. Eaton said that "both companies have product ranges with world class brand that complement each other perfectly ("Merger Agreement Signed: Daimler-Benz and Chrysler Combine to Form the Leading Global Automotive Company," 1998)

Business analysts were also quite optimistic about the possible merger. According to them, the geographical compatibility, their complementarity, and the synergy of skills were the major motivations for the merger.

The expected benefits should come from decreased purchase prices for raw material and services and the consequent usage of the distribution chains of the relative partner.

The optimization of complementary products and the benefits in product development were also key for a successful and profitable partnership. In the first consolidated annual report of 1998, Schrempp and Eaton named six important fields which they combined after the merger in order to realize the synergy target of 1.4 billion dollar (DaimlerChrysler, 1999):

1. Procurement functions – leveraging the combined purchasing power of $94 billion
2. The sales and marketing organizations
3. Executive management development
4. Research and development teams
5. Financial services business
6. IT, legal, communications, quality assurance, corporate finance departments

Both CEOs expressed their commitment of pursuing a fast and efficient integration process.

3.2.2 The timeline

The table below describes the precise timeline, starting from the very first discussions between the CEOs of Daimler and Chrysler and ending with the listing of the newly founded entity DaimlerChrysler.

January 12, 1998	Schrempp discusses a possible merger with Eaton during the Detroit Motor Show
February 12–18, 1998	Start of discussions within groups of representatives and advisors
March 2, 1998	Meeting of Eaton and Schrempp to plan governance and organizational structures
March–April, 1998	Teams prepare possible business combinations
April 23–May 6, 1998	Business combination agreement is negotiated
May 6, 1998	Merger agreement signing in London
May 7, 1998	Merger announcement

May 14, 1998	Daimler-Benz Supervisory Board agrees to merger
June 18, 1998	Daimler-Benz management team visits Auburn Hills
June 25, 1998	Chrysler management team visits Stuttgart
July 23, 1998	European Commission approves merger
July 31, 1998	Federal Trade Commission approves merger
August 6, 1998	Announcement that DaimlerChrysler shares will trade as “global stock” rather than American Depositary Receipts (ADRs).
August 6, 1998	Daimler-Benz and Chrysler mail Proxy Statement/Prospectus to shareholders
August 27, 1998	Daimler-Benz and Chrysler management teams meet in Greenbrier, West Virginia to discuss post-merger plans
September 18, 1998	Chrysler shareholders approve merger with 97.5% approval.
September 18, 1998	Daimler-Benz shareholders approve merger with 99.9% approval.
November 6, 1998	Chrysler issues 23.5 million shares to corporate pension plan to qualify for pooling-of-interests accounting treatment.
November 9, 1998	Daimler-Benz receives 98% of stock in exchange offer
November 12, 1998	DaimlerChrysler merger transaction closes.
November 17, 1998	Day One: DaimlerChrysler stock begins trading on stock exchanges worldwide under symbol DCX

Table 3- Timeline Source: DaimlerChrysler Prospectus (DaimlerChrysler, 1998)

The merger was concluded nearly within 10 months, which is, considering the sizes of both companies, quite respectable. Both CEOs were so committed and convinced that the path of a fusion would be the only way to survive and therefore time mattered.

The management was proud to announce the so-called “merger of equals”. In the assessment phase, it appeared that both companies were quite comparable and therefore the name “merger of equals” was born.

3.2.3 Details of the deal

Both companies agreed on a stock swap merger. There are different valuation techniques using book or market values or even expected earnings. A common approach is to apply the market values of both firms over a certain time in order to exclude variations due to merger rumors. The exchange rate ratio was computed using the average market price of both companies during 1998. (DaimlerChrysler, 1998)

Goldman Sachs and CSFB were asked to assist the M&A teams in both companies with the valuation and financial analysis. Several different methods were applied

Both advisors expressed fairness opinions in order to facilitate the decision in the boards about the approval of the exchange ratio.

Interestingly, the proposed exchange ratio and hence the Chrysler's share of 41.4% corresponded with a premium ranging from 15% - 37%. The table below, which analyzed the fair share of Daimler and Chrysler of Daimler-Chrysler, indicates the different shares by applying different valuation techniques.

Applied Method	Share of Daimler-Chrysler	
	For Daimler	For Chrysler
Market Values	68.4%	31.6%
Actual Exchange Ratio	55.6%	44.4%
Total Revenues	52.9%	47.1%
Net Assets	56.1%	43.9%
Net Income	46.7%	53.3%

Table 4 - Source: DaimlerChrysler Prospectus

The actual ratios were 1:1.005 for Daimler-Benz's shareholders and 1:062.35 for Chrysler' shareholders. Chrysler was therefore given a premium over the closing prices of about 31%. (Blaško et al., 2000) The deal was favorable for Chrysler's shareholders when applying the market values.

From a legal point of view, a real merger between the two companies never happened. The direct merger of Chrysler into Daimler would have the consequence of a costly transfer of assets not involved into a new U.S. subsidiary. Therefore, the original Chrysler Corporation was kept but the ownership was transferred to the newly founded DaimlerChrysler AG. (Blaško et al., 2000)

3.2.4 The post-merger restructuring

The first reaction, especially on the stock market, was mainly positive. The abnormal return after the announcement was 30.9% for Chrysler and 4.6% for Daimler shareholder respectively. The newly founded entity Daimler-Chrysler had a market capitalization around $95 billion, which corresponded with a $10 billion plus in respect with the combined market capitalizations of both firm pre-merger. On November 18, 1998, the DaimlerChrysler shares were for the first time traded on the stock exchanges.

The new conglomerate employed more than 400,000 people and was keen to realize substantial savings in sales, raw materials, distribution channels, or R&D due to economies of scale and scope.

The merger brought DaimlerChrysler on the fifth position of world's largest automotive producer and they became third largest in sales. (Kavanagh, 2008)

Eaton and Schrempp, the two chairmen of the new enterprise, were responsible of amalgamating the two cultural very differing companies. Both believed that the potential synergies and benefits from jointly developing new products and sharing expertise were huge.

The post-merger structure consisted of five different departments, namely the Mercedes division, the Chrysler division, commercial vehicles, financial services, and the aerospace branch. Interestingly, Chrysler appeared to be the fifth business unit of the already existing fields of Daimler-Benz. Somehow, it showed already that the merger of equals was never thought to be a real merger.

The merger plan forecasted annual savings of 1.499 million $ in the year after the merger and 3.000 million $ within the range of 3-5 years (Vedele, 2013). However, the actual numbers differed significantly. The management overestimated the abilities to create value from the merger. The reasons why the merger failed were numerous and are about to be explained below.

3.3. The failure of DaimlerChrysler

3.3.1 Operational problems

The post-merger performance, especially of Chrysler, has been bad. In the first full year of partnership, the result was positive and the group closed with earnings of around € 10.3 billion. Chrysler realized an operating profit of € 5 billion, whereas Mercedes contributed € 2.7 billion, and the missing part came from the branches commercial vehicles, services, and aerospace. (DaimlerChrysler, 2000)

The share price reached a new maximum of 108$ per share in January 1999. From then on, the steady and continuous decline began.

In 2000, the performance of Chrysler drastically dropped to profits of € 501 million, in respect to €5 billion in 1999 a huge break-in. (Vedele, 2013) Mercedes, as proven over many years, delivered stable margins. DaimlerChrysler itself named the intense competition, higher marketing, and start-up cost as well as increased refinancing costs as main reason for the fallen profits.

Chairman Eaton announced his retirement in January 2000. Eaton was also somehow disappointed and saw his position in the enterprise only transitional. The management style was definitely characterized by the authoritarian style of Schrempp. He further underlined his view of the merger when he gave an interview to the Financial Times and stated that the "marriage of equals" was intentionally created to overcome with psychological hurdles, but in reality, he had always planned to acquire Chrysler. (Nesshöfer & Herz, 2007)

Schrempp took advantage of Eaton's retirement and installed his German colleague Zetsche in Auburn Hills, the headquarter of Chrysler. Zetsche's mission was to restructure and reorganize Chrysler in order to become more profitable again. DaimlerChrysler already knew that the process would be costly and not doable without significant layoffs.

Surprisingly, Zetsche became generally accepted and appreciated at the US base. In 2001, Zetsche had to present his turnaround plan in order to restructure Chrysler. More than 26,000 employees were about to be fired and six US plants were planned to close during the following years. (Nesshöfer & Herz, 2007)

In February 2002, Chrysler boss Zetsche announced a record loss of €5.3 billion for 2001. For the DaimlerChrysler group it meant to record a loss of € 662 million. (DaimlerChrysler, 2002)

<u>The Mitsubishi deal</u>

Schrempp had his own vision of the DaimlerChrysler enterprise. He wanted to build the so-called "Welt AG", a conglomerate of automotive firms, operating all over the world and with products ranging from the micro car until the luxury sedan. The merger with Chrysler was only the first step of a series of acquisitions and partnerships. Soon after the Chrysler deal was closed, Schrempp looked-out for a strategic partner in Asia. Daimler's board had expressed serious expansion goals for Asia already back in the mid-1990s. However, it was recognized that Daimler needed a partner as Ford did with Mazda and GM with Isuzu in order to achieve the ambitious growth goals.

DaimlerChrysler identified first Mitsubishi as the ideal partner that gave access to the Asian markets. In addition to that, DaimlerChrysler discovered also substantial growth possibilities for Mitsubishi in Europe and the US.

Already Schrempp's predecessor Reuter had negotiated with the Asians about forging alliances. However, the plan to further expand the conglomerate became then reality in 2000. Mitsubishi, which suffered from huge losses and debt and which announced a costly turnover plan, appreciated the interest of the German/American automotive giant and encouraged them to buy 34% of its shares in May 2000. (Begley & Donnelly, 2011)

Schrempp was criticized for undertaking unnecessary risks with the acquisition of the Mitsubishi stake, the problem he had with the Chrysler were already expensive and hardly foreseeable. Officially, the acquisition was financed by the 50.1% stake sale of Debis. The acquisition of a 10% participation in Hyundai, Mitsubishi's Korean partner, was then the final touch.

Keeping in mind that the integration of Chrysler stood far from completion, the Asian alliances brought new challenges for the management team. A million of defective vehicles caused a huge recall and a subsequent drop in share price of 30%.

However, the German management team had to focus on the US-based Chrysler arm and less on Mitsubishi's problems. Nevertheless, the German headquarter created in collaboration with the Japanese a restructuring plan in order to handle the crisis. The plan foresaw the exchange of parts and sharing platform between Chrysler and Mitsubishi. It also included substantial lay-offs and estimated that it would cost at least $2.8 billion. (Begley & Donnelly, 2011)

The critical situation peaked in 2003 when Mitsubishi recorded a loss of more than $ 2 billion, also due to a $454 million provision because of default payments investigated in 2000. (Mitsubishi Motors Corporation, 2004). Schrempp found himself more and more in trouble. On the one hand, Mitsubishi continued to produce losses and the restructuring plan failed to change the business model substantially in order to become profitable again; on the other hand, Chrysler, after a profitable year in 2002, unfortunately had to report losses again in 2003 and announced losses of half a billion dollars.

In the same year, Bloomberg released a devastating statement regarding the performance of DaimlerChrysler in the former five years (Nesshöfer & Herz, 2007). Bloomberg stated that Schrempp "destroyed the total value of the former Daimler business" and that "Chrysler would only be a dead weight, hanging on the neck of a profitable business".

Schrempp acknowledging that Mitsubishi was in need of substantial capital injection, for the very first time was compelled to ask the executive board for advice. Chrysler's chairman Zetsche and the vice chairman Bernhard refused to agree with Schrempp. After intense negotiations, Schrempp finally announced the disposal of the Mitsubishi participation. In the meanwhile, voices that demanded the resignation of Schrempp got louder. Investors were furious about the $40 billion loss in market capitalization since the merger with Chrysler. Nevertheless, the supervisory board extended Schrempp's contract until 2008. The chairman was still convinced of his business strategy's potential to yield successes in the future. (Nesshöfer & Herz, 2007)

3.3.2 Junior status and cultural differences

The senior management team, which was involved since the beginning of the merger deal, stated that no cultural differences had ever existed. Robert Lutz, a former Vice-chairman of Chrysler, stated the following: "they look like us, they talk like us, they are focused on the same things, and their command of English is impeccable". (Finkelstein, 2002)

However, the problem of cultural differences appeared during the post-merger integration. The management team was aware of possible clashes and spent millions in cultural sensitivity workshops. Nevertheless, the Germans had a hard time breaking out of their preconceived notions of quality with regard to Chrysler's manufacturing standards. Moreover, some members of the Daimler's executive board stated that they would never buy or drive a Chrysler.

Finkelstein (2002) identified two major problematic fields:

1) Differentials in pay and travelling

> The differences between the compensation plans in Europe and America have always been fundamental. American managers were generally compensated in part in the form of stock options, whereas their German counterparts were remunerated on the basis of fixed financial performance indicators. Consequently, many highly skilled people left Chrysler for Ford or GM, because they knew their salaries would not rise significantly. The German perception, as well as the perception in Europe in general, of high salaries was mainly negative. A significant equalization was not expectable, given the European mindset that looked at huge differences in pay between workers and managers unfavorably.
>
> On the other hand, Chrysler's management team struggled with the German practice of travelling and lodging. Dining in the finest restaurants and spending nights in the most expensive Hotels belonged to the German way of managing. Clearly, it would not determine the success or failure of an intercontinental merger, however, it is a practical example of how different the two management styles were.

2) Junior Partner

> Marriage under equals: the whole deal started with the statement that the fusion would be a merger of comparable firms. However, Schrempp clarified his view of the merger soon after the official partnership. In 2000, Schrempp admitted in an interview for the

Financial times that while calling the deal a "marriage of equals" went a long way in fostering American acceptance of the merger, in reality, he had always viewed their arrangement in terms of an "acquisition" (Nesshöfer & Herz, 2007). Chrysler's staff and especially the management expressed outrage over Schrempp's arrogant statement. The proud Americans were convinced of doing it the right way and hated the fact the Germans felt superior.

3.3.3 Mismanagement

DaimlerChrysler failed to create and apply a detailed post-merger plan. The actions were certainly not coordinated perfectly. The simple fact that Chrysler was neither a merger, such as Schrempp publicly announced nor a fully accepted acquisition, did not facilitate an effective integration. (Finkelstein, 2002)

The programs put in place to oppose the loss of many highly skilled personnel that had been with the company for a long time, was not very effective to say the least. Schrempp was aware of issues during the incorporation process of Chrysler. His plan, therefore, consisted in legally unifying both companies, while on the other hand, letting each company run their businesses independently as they did in the past, at least from an operational standpoint.

Consequently, Chrysler was lacking a clear vision and strategy. The appointment of a new German management team in 2000 came not early enough in order to prevent Chrysler of losing cash.

Furthermore, the corporate management was literally unable to unlock substantial cost savings, mainly due to the bias in brands and the incompatibility of the product ranges of both companies. In addition to that, Daimler would not abandon its long-term philosophy of "quality at any price", which was very much in contrast with Chrysler's way of producing price-targeted cars. As a result, eventual sharing of platforms or even components was never discussed seriously.

From this point of view, the merger with Chrysler used to be more of a strategic move for Daimler-Benz, which should help to diversify its business fields rather than a real and sustainable merger. However, the cultural clashes and the mismanagement in the post-merger period destroyed important confidence and brought much instability. Therefore, the downward spiral was a logic consequence and the Germans' reaction probably too late in order to turn the merger into a success story.

4. Chrysler during the financial crisis

The meltdown of the financial system in 2008 had severe consequences for the global economy. The subsequent recession hit the automotive industry hardly.

All car manufacturers struggled with the shortfall in demand. Especially, the American system, whose car sales were based mainly on leasing contracts and consumer loans, noticed the most dramatic crash.

4.1 Chrysler's troubles and the acquisition by Cerberus Capital

After the resignation of Schrempp in 2005, his successor, former Chrysler CEO Dieter Zetsche, was facing the challenge of saving Daimlers' profitability and solving the merger issues with Chrysler. Zetsche's first important act as CEO was putting a restructuring plan for Daimler in 2006 which included the dismissal of 9000 Mercedes and 6000 Daimler workers (Nesshöfer & Herz, 2007).

Zetsche personally believed that the crisis at Chrysler was solved since it delivered stable operating profits in 2004 and 2005. However, the public was shocked when the following year Zetsche had to announce that Chrysler would lose more than a billion Euros. (DaimlerChrysler, 2007) The problems at Chrysler repeated themselves.

Further layoffs were signalized at the annual shareholder's meeting in Auburn Hills on February 14, 2007. More interestingly, Zetsche said in an interview that the headquarter would consider all options. (Nesshöfer & Herz, 2007) Immediately after, rumors appeared that a buy-out of Chrysler was likely to take place.

JP Morgan was appointed to examine all possible candidates and to prepare a potential buy-out. A team around Slaughter Frank presented three interested candidates, two private equity funds Cerberus and Blackstone, as well as the Austrian-Canadian supplier Magna. (Handelsblatt, 2007)

In April 2007, Zetsche confirmed in front of the shareholders that first negotiations with the potential candidates had taken place. The day after Zetsche's speech, Kirk Kerkorian's private fund, an investor of Chrysler who sued unsuccessfully against the fusion in the late 90ies, announced that they would offer $ 4.5 billion dollars for Chrysler's shares. The intention to put pressure on Daimler failed, when Zetsche declared that other offers that had been put to the table were more interesting.

Even though the labor unions showed resistance, Chrysler was sold to the private equity fund Cerberus for $6 billion. The deal represented a milestone for Cerberus and they were committed to restructure the company fundamentally. (Nesshöfer & Herz, 2007)

4.2 Chrysler's bailout

4.2.1 The financial crisis and the consequences for the US automotive industry

The effects of the US financial crisis, which soon after would take over the entire globe, on the automotive industry of the United States were catastrophic. The automakers faced the worst losses in the history of their corporations. In the United States, car sales dropped from about 17 million to 10.6 million in 2009.(OICA, 2016)

Since Chrysler went private through the acquisition by Cerberus, they did not disclose earnings publicly. However, taking into account the dramatic losses of its competitors Ford and GM, which had suffered a cumulative loss of $18 billion in 2007 and $71 billion in 2008, it was reasonable that Chrysler found itself in a similar situation. (Kruger & Goolsbee, 2015)

In November 2008, the CEOs of the big three asked the House and Senate of the U.S. for a bridge-loan of 25 billion dollars in order to prevent bankruptcy and guarantee wages and supplier payments. Congress criticized the competiveness of the U.S. companies and was worried that loans would not be paid back, which in turn could have ruined the legislature's reputation; especially since Government intervention was viewed critically by a majority of the American public. Consequently, discussions over Government action kept Congress busy, while automakers nervously observed their cash reserves, which were rapidly approaching zero. The Bush administration then used funds of the TARP to provide emergency financing support to keep the aforementioned companies operational at least for some more months until a final decision could be reached. (Kruger & Goolsbee, 2015)

They received the loans under the condition of presenting fundamental and viable restructuring plans until February 2009. However, the plans that were submitted in February were rejected and seen as unrealistic. Time became a critical resource. Chrysler started to sell assets in order to obtain some cash. Nevertheless, the financial situation worsened due to the ongoing financial crisis.

The idea of a merger between GM and Chrysler was discussed intensively. Experts, however, doubted that two failing companies would do significantly better in this environment even if they merged.

Zandi and Scott (2008) studied the effects of a possible bankruptcy of GM and Chrysler. They both agreed that it would have significant macroeconomic effects due to a series of negative chain reactions. According to them, 2.5 – 3.3 million jobs would have been at risk. Therefore, they concluded that the costs of not rescuing the three companies were smaller than the costs of granting loans.

Americans were generally skeptical about Government bailouts in order to stabilize the private sector. As one of the most liberal countries in the world, the faith in markets was still present, even though markets had collapsed. Politicians wanted to avoid making the same mistakes as Japan, where the Government propped up "zombie firms", which survived thanks to the Government's help, but were otherwise not at all viable. Even more interesting, studies found out that the capital-intensive automotive sector provided a terrible "bang-for-the-buck basis", which means that using money to help other industries would have a better employment impact. (Kruger & Goolsbee, 2015)

The consensus among experts about the significance of GM was strong. The question was rather whether Chrysler should be saved from bankruptcy as well. Kruger and Goolsbee (2015) highlighted the fact that GM, Ford, and Chrysler had overlapping markets. A theoretical failure of Chrysler would have had less of an impact, since GM and Ford offered products comparable to those of Chrysler and would therefore have been able to satisfy market demands. In addition to that, Chrysler remained unsuccessful for years, even though it had been acquired and restructured by Daimler and Cerberus capital.

4.2.2 The decision, the bailout and new start

The newly elected president Obama wanted to prevent the risk of a failure of the two companies and concluded that saving them both would ultimately result less harmful to the American economy as a whole. However, he personally rejected the presented restructuring plans in February 2009 and ordered new and more viable plans of both companies, this time in collaboration with external turnaround experts who were personally selected by the White House.

On January 20 2009, Fiat and Chrysler agreed on a non-binding letter of intent. Both were committed to fully investigate a possible alliance for the future.

The first agreement foresaw the exchange of important patents, platforms and fuel-efficient engines. Furthermore, both companies would share their distribution networks. Fiat would get an initial 35% stake in Chrysler and the option to further expand its participation in the company to an additional 20% after one year.

In the meanwhile, the Federal Government prepared the Automotive Industry Finance Program. It contained a precise catalogue of promised actions that would allow the concerned companies to streamline their operations and to become competitive and profitable again.

Chrysler Financial, a special purpose entity, first obtained a $1.5 billion bridge-loan for the extension of new consumer auto loans as part of a broader program to assists the domestic automotive industry on January 16, 2009.

Chrysler originally calculated the needed support to be around $7 billion and it additionally asked the Energy Department for a $6 billion loan in order to finance an energy efficiency program.

Thanks to the efforts of Fiat's CEO Marchionne, the U.S. Government was quickly convinced that FIAT would be the best possible candidate for an alliance. Chrysler was facing significant problems such as a lack of fuel-efficient engines, quality issues, poor brand image, and dependency on the national market. (Balcet, Commisso, & Calabrese, 2013)

On March 2009, the White House provided the required loans with some conditions. An ultimatum of 30 negotiation days with FIAT was set up, otherwise, bankruptcy would be unavoidable. Furthermore, the Government demanded that Fiat, as the most probable partner, receive a stake in Chrysler gradually, starting from 20% and only extendable under the condition of a transfer of technologies. In addition to that, the majority stake could not be obtained until the public loans were fully reimbursed (Caputo, 2015).

The negotiations with banks and hedge funds, which Chrysler owed nearly $7 billion, failed. Chrysler had to file for bankruptcy on April 30 2009 (Kruger & Goolsbee, 2015). Several restructuring measures were immediately implemented such as wage reductions and the termination of dealerships. Tim Geithner gave permission for additional $6 billion to fund the operations during the bankruptcy process. However, the production was totally shut down.

Under the protection of Chapter 11 code, Chrysler was allowed to reorganize its operations. Labor unions, creditors, Fiat, and the Government, which provided the necessary funds and guarantees, tried to work out an acceptable solution for all parties. They were aware of the fact that thousands of jobs were at risk.

Within five weeks, the parties found a viable solution. Chrysler Group LLC was founded. The new entity was owned majorly by the UAW (United Auto Workers) in order to guarantee pension payments and to compensate wage cuts. They received a 55 percent stake.

Fiat, through its American subsidiary Fiat North America LLC, got a minority stake of 20% in exchange for technology transfers and received control over the corporate restructuring. The possibility to expand the ownership was linked with performance targets. In addition to that, FIAT was prohibited from getting a majority stake until the American taxpayer was fully reimbursed. (Caputo, 2015)

The government kept the remaining 25% in their own hands as compensation and pledge for the granted loans. The U.S. Supreme Court approved the agreement on June 10, 2009. On the same date, the newly founded entity became operational.

Chrysler and the Government were initially criticized for giving Chrysler's 20% share to Fiat at no cost. Furthermore, many feared that Chrysler would not survive the time span needed in order to implement the new policies and to start the production of the new, jointly developed and fuel-efficient cars.

5. Fiat S.p.a.

5.1 Fiat in the 21st century

Any understanding of the past of Fiat as well as Chrysler needs to start with a careful consideration of the consolidation process in the whole industry. Starting back in the late 80ies, market concentration and diversification increased steadily and significantly. Balcet, Commisso, and Calabrese stated that in contrast with the past, automotive producers focused more on market segment diversification rather than on geographic presence. Many companies started to introduce luxurious brands as well as micro cars in order to cover the full range of consumer needs. (Balcet et al., 2013)

The Italian car manufacturer was bleeding cash. In 2000, FIAT accounted the last positive income statement for years. The highly indebted company was facing a downward spiral in sales revenues and launched several restructuring programs. (Fiat, 2005a) The fundamental problem in Turin was that they failed to notice that competitors in Europe and around the globe were overtaking FIAT in terms of innovation, product quality, and performance. FIAT, which lost one third of its market share in Europe, could not address these problems, given that it was continuously threatened to crumble at any moment under its own debt of $13 billion. In reality, the management team and the owner family Agnelli had shifted their focus from the automotive division towards a diversification through acquisitions. Fiat holding invested in many different businesses, but simultaneously reduced the expenditures for R&D drastically.

FIAT established an agreement with General Motors in 2000, which foresaw the acquisition of a 20% minority stake of Fiat Auto by GM. In addition to that, FIAT got a “put” option to sell the remaining 80% starting in 2004. (Corsi, 2002) Italian and American newspapers celebrated the alliance, even though the ongoing merger of DaimlerChrysler showed poor results. Soon, GM was frustrated about the poor economic performance of its European partner and many doubted that FIAT would be worth another investment or eventually a takeover.

Necessary restructuring measurements met hard resistance, given that the labor unions had massive influence and enjoyed considerable protection in Italy.

5.2 Marchionne the savior

Volpato wrote in his book “Fiat Auto” about the overall problems that led to the deep crisis of Fiat in the 21st century. According to him, the management was not able to perceive their own mistakes or to counteract in a proper way. (Volpato, 2005) The management style was defined by a “top-down” approach, whereas other corporations had already introduced a more modern and adequate “bottom up” system. “Bottom up” management is characterized by innovations driven by the personnel. The classical hierarchical structure loses importance.

Volpato meant to know who was responsible for the poor performance and the lack of innovations. When Paolo Fresco became CEO of Fiat in 1998, he was already 65 years old. Giovanni Agnelli, president of the Fiat group until his death in 2003, appointed him personally.

Fresco was responsible for the negotiations with General Motors and had earned great respect for the transaction he closed in 2000. The newspapers celebrated his deal that immediately brought 2 billion dollars for Fiat. However, as already described, Fiat’s performance worsened and the overall perception of Fresco’s management skills began to shift.

Cullino and Fabrizi (2005) further criticized the Fresco’s inability to address the four main strategic principles of the automotive sector of the 21st century.

According to them, successful car producers perceived and implemented the following four principles:

1) Increased product differentiation: more car models, ranging from the micro car to the sport car

2) Decreased *time-to-market* timespan: a reduction of the development phase in order to react quicker to consumer trends

3) Continuous reduction of production costs: low margins did not allow producing inefficiently

4) Increased R&D expenditures: In order to meet new environmental and safety requirements, companies needed to research and develop more

Fiat, instead, failed to make fundamental investments in order to meet the new market requirements.

In January 2003, Giovanni Agnelli died of prostate cancer and his younger brother Umberto became chairman of the Fiat group. The 68-year-old Umberto started to restructure Fiat and refocused on its auto division. Giuseppe Morchio was elected as CEO and was expected to present a rescue strategy for the troubled company.

Unfortunately, Umberto died in 2004, just about a year after the death of his brother. Giovanni Agnelli's heir and designated president of the Fiat group, John Elkann, was still too young for the presidency. Instead, Ferrari's chairman Luca di Montezemolo was appointed as chairman of the Fiat group, while Elkann joined the board as Vice-chairman. (Fiat, 2005a)

CEO Morchio was proposing himself as president of the group. However, the Agnelli family rejected this proposal and dismissed Morchio. After a hasty search for an adequate candidate, the decision was made in favor of board member Marchionne.

Sergio Marchionne, born in 1952 in Chieti, was appointed officially in June 1 2004, as the CEO of the Fiat group. (Fiat, 2005a)

Marchionne gained control of a company deeply in crisis. Fiat dropped to the 10th place of the largest car producers in the world. (Berta, 2006) In addition to that, he found himself in the center of a frustrated business environment, where previous attempts of Morchio or Fresco to restructure the company have failed.

Marchionne started his successful career as CEO of Fiat with firing some members of the existing management team. His perception was that Fiat was "overmanaged" and "underled". This move was seen as unprecedented, since people at the management level had never before experienced radical lay-offs. Marchionne set a clear signal that nobody would not be replaceable.

Furthermore, Marchionne was convinced that the deal with GM would not be sustainable and he tried to get the most out of the deal. With the "put" option in his hands, Marchionne had the goal of convincing GM to pay Fiat for not exercising its option.

After several months of negotiations, the new CEO closed a deal in February 2005, which foresaw that GM would pay 2 billion dollar in order to settle the option agreement. (Berta, 2006) Italian newspapers celebrated the deal as the first major success of Marchionne who dispossessed $2 billion, emergently needed at the Fiat side. However, the Economist wrote that the capital injection alone would not solve Fiat's substantial problems.

The second major challenge for Marchionne was the "convertendo" loan, established with the largest Italian creditors in 2002. The threat of converting the loans into shares, which would allow the banks to control the firm with a majority stake, still existed.

In April 2005, Marchionne and Montezemolo met the CEOs of the major Italian bank. They reached an agreement in which the banks guaranteed their financial support, if the performance goals set by FIAT itself for 2005, 2006 and 2007 would be met. It gave FIAT security that the banks would not convert their loans into shares. (Berta, 2006)

In August 2005, Fiat presented "il Piano di Sviluppo di Fiat Auto" in Rome, a restructuring plan for the Fiat automobile division. The objectives for FIAT auto were ambitious. Already in 2005, the introduction of a series of new products should start. The model span would be enlarged to be more diversified and more innovative. Especially the launch of models not yet announced, such as the Fiat 500, a new Lancia SUV, and a series of high-end Alfa-Romeo models should allow Fiat to make the turnaround happen and to obtain the profitability needed for further investments in R&D.

In addition to that, Fiat launched a new department the "Fiat Powertrain Technologies" in an effort to bundle competences and innovations. The development of new fuel-efficient, two-cylinder motors was planned for 2008-2010. (Fiat, 2005b)

Fiat clearly outlined the conditions under which the turnaround plan for 2005-2008 could be realized. First of all, the profitability had to increase as projected in order to finance the new investments. In addition to that, Fiat held an access to Government innovation funds to be necessary for the implementation.

As far as the operational issues were concerned, Fiat demanded more flexibility from unions as well as a higher productivity. Finally, the most important condition was the support on the part of a majority of stakeholders of the restructuring plan put together by the managing board. Especially the labor unions that had blocked many structural changes in the past had to show a general willingness to follow through on the commitments asked of them in the plan. (Fiat, 2005b)

The commitment of Montezemolo and especially of Marchionne has been extraordinary. In spring 2006, they proudly announced the annual statement of 2005, which marked a turning point for Fiat. The operational results of Fiat Auto were still negative, but reduced by 600 million Euros. The overall group results, on the other hand, showed upstream tendencies, with net earnings of roughly 1 billion Euros. (Fiat, 2006)

BBC News wrote in May 2006 that Fiat Auto recorded market-beating profits of 57 million Euros in the first quarter of 2006. The new Fiat Grande Punto was a success and Marchionne interpreted the results as a sign that the company as a whole was on the right path. (BBC NEWS, 2006)

In 2007, while presenting the results of 2006, Marchionne spoke of a new Fiat that had left the era of crises and emergency turnaround plans. He proudly announced that Fiat Auto was profitable again. The Fiat group registered a trading profit of nearly €2 billion, almost doubling the results of 2005. (Fiat, 2007)

To underline the new appearance, while at the same time honoring its glorious past, Fiat launched the new Fiat 500 on July 4, 2007 at Torino. The model was celebrated by many automotive journalists and won several awards such as “Car of the Year 2008”. (Fiat, 2008)

Car sales of Fiat increased steadily. The revenues in 2007 rose about 13%, which corresponded with a plus of 12.8% in deliveries. In addition to that, Fiat achieved market share increases. (Fiat, 2008)

Marchionne announced the completion of the industrial turnaround plan established back in 2004. All targets were met in time and in many cases, the company was able to exceed them significantly. Shareholders appreciated Marchionne’s work. Fiat’s share price rose from 5€ at the time of his appointment to an all-time high of 21€ in July 2007.

5.3 FIAT and the financial crisis

Despite the impressive recovery since the appointment of Marchionne, experts agreed that Fiat’s success came mainly from cost reductions and increases in efficiency. Marchionne knew that their product portfolio was old fashioned. However, the delay in upgrading the product portfolio towards higher-priced compact models was further affected by the financial crisis in 2008.

Most of the European governments launched programs of financial incentives in order to absorb the shock in demand. These incentives, which often only targeted small and eco-friendly cars, while being initially successful and responsible for an increase in sales, such success was ultimately rooted in a shift of demand. The strategy might have led to an uprise of anticipated purchases of small vehicles, but ended in an even more severe shortfall once the incentive period came to a close.

Marchionne continued to emphasize the problems of Fiat. Its elevated structural costs, the low utilization of capacity and outdated product portfolio proved to be a burden for both Marchionne and the complete realignment of Fiat. (Berta, 2006)

Moreover, Fiat was still considered as "too small" when compared to its direct competitors. Bearing this in mind, Marchionne started to pursue a strategy of scale and scope economies through mergers and acquisitions.

6. The FCA era

6.1 The strategy for a full merger

According to Balcet, Commisso, and Calabrese (2013), Fiat, after the acquisition of the 20% stake, has pursued three main goals, which nearly all manufacturers try to achieve:

1) Substantial economies of scale

2) Increase productivity and reduce costs

3) Expand the presence in growing and profitable markets

Fiat's integration plan foresaw the redefinition of the product portfolio of both companies and to rationalize models, engines and platforms. Fiat already had one of the most diversified product portfolios, with products ranging from super sport car brands such as Ferrari down to micro cars along the lines of the Fiat 500. Despite Fiat's impressive portfolio, Marchionne still feared that Fiat might be too small to compete. In Marchionne's mind the best way out of this impasse was a full merger with Chrysler as it had the potential to unlock significant economies of scale by sharing platforms, much in the same way it had been done previously by its German main competitor Volkswagen Group.

The plan consisted of three platforms, all developed by Fiat, and with around one million annually produced vehicles for each platform. The compact size platform would then be modified and adopted so that Chrysler's mid-size vehicles would fit.

Fiat and Chrysler were committed to standardize and unify components that can be considered as transversal to all models and platforms. The management focused on components such as the powertrain, steering or lighting that can amount to 75% of the total production costs. (Bertoldi, Giachino, Bernard, & Prudenza, 2015)

A further step to cut costs was dependent upon a fusion between the Lancia and Chrysler brands. Identical models were sold under different brands to save marketing and promoting expenditures. In addition, both the Fiat and the Dodge brands were sharing a model, namely the "Freemont" that became successful even on the European market.

The most important exchange for Chrysler was Fiat's fuel-efficient four cylinder engines. Chrysler and its gas-guzzling line-up was required to meet the new pollution and environmental requirements and therefore was able to save millions by using Fiat's fully developed engine portfolio instead of having to work on an in-house developed engine from scratch. However, Fiat's technology did not come without a price tag: Fiat's twenty percent stake in Chrysler.

The introduction and implementation of the WCM (world-class manufacturing) system allowed Fiat and Chrysler to better focus on value-adding processes and to reduce costs, waste as well as defective vehicles. (Balcet et al., 2013)

The WCM was based on the ABC-model (activity-based costing) which splits complex processes into single activities and analyzes them according to "value adding" criteria. Unnecessary or non- value adding activities should be removed in order to reduce costs or waste and to create capacities for more profitable processes. (Azizi & Modares, 2002)

Fiat and Fiat Industrial had already experience with WCM. The management expected nearly €2 billion in savings over a period ranging from 2010 to 2014. In addition to that, Marchionne pushed for an immediate implementation at Chrysler's plants. Forecasts predicted cumulative savings of another €1 billion over the next five years. (Bertoldi et al., 2015)

However, the greatest saving potential lied in the combination of the companies' purchasing. The merger made it possible to create significant and consistent savings on purchases. After two years, in 2011, both firms together exceeded a total volume of €50 billion of purchases and expected cumulative savings of roughly €5 billion over the 2010-2014 period.

Fiat and Chrysler also optimized the development of their models. In order to react effectively to market and consumer changes, both companies needed to minimize the product development time span. They made significant progress and reduced the internal development cycle, from the technical release to the official market launch, to 18 months.

In addition to that, Fiat and Chrysler were able to provide a more diversified product mix with respect to the portfolio as it had been before the acquisition. Thanks to Chrysler's compact cars and the Jeep brand's SUVs, Fiat managed for the first time to also step outside the low-price segment inside which its products had previously been concentrated.

6.2 The timeline

After its failed alliance with GM, Fiat tried to realize a full operational merger, before considering a financial tie-up. (Bertoldi et al., 2015) The requirements and targets made by the U.S. government forced Fiat to fully focus on the operational side first, before being legally allowed to acquire a higher participation in Chrysler. There was no way of increasing its stake in Chrysler, without first meeting those targets. This helped clearly to increase the pressure on the management team.

While according to the agreement, Fiat held a minority stake reminiscent of a joint venture, in reality the arrangement between the two companies was closer to a real progressive merger. Fiat used the sales and distribution network of Chrysler in order to sell its Alfa Romeo brand along with first time sales of Fiat products in America. Chrysler instead, benefited from the strong position of Fiat in South America.

Yet, the first two years were rough. In November 2010, the New York Times reported that Chrysler drifted further behind its long-term rivals Ford and GM. (Vlasic & Bunkley, 2010). The latter showed impressive recovery results, especially Ford was for the first time able to reach levels that came close those prior to the recession. Marchionne was still confident about the future of Chrysler.

Soon after, on May 2 2011, the New York Times had to go back on its initial projections for Chrysler's finances. Chrysler accounted a staggering 35% revenue growth in the first quarter along with the company's first profits after years of bad news (Bunkley, 2011). Marchionne immediately interpreted the results as "a testament to the hard work and dedication of our employees, suppliers and dealers, all of whom are helping Chrysler create a new corporate culture built on the quality of our products and processes, and simple, sound management principles." (Bunkley, 2011)

On January 2011, Fiat fulfilled its first target, previously defined in the operating agreement with the government. The U.S. treasury consequently approved the start of production of the fully integrated robotized engine in Dundee, which was the first performance milestone. Fiat automatically gained 5% of participation.

During spring 2011, Fiat met the second innovation milestone and its participation rose to 30%. Soon after, on May 24, Chrysler Group proudly announced the repayment of all of its outstanding government loans. Chrysler paid back its $7.6 billion of U.S. and Canadian government loans six months in advance. Fiat on the other hand, exercised its 16% equity call option as granted in the operating agreement by paying $1.3 billion to the U.S. carmaker. Hence, Fiat's participation increased by another 16% and reached 46% in total.

Already two months later, on July 21 2011, Fiat purchased an additional 7.5% previously held by the U.S. and Canadian governments. The public pressure on the governments to sell their stake after the repayment of the outstanding loans was definitely beneficial for Fiat at that time.

Fiat paid $700 million in order to obtain the stakes of both governments. It meant that Fiat finally controlled the Chrysler Corporation also in an official capacity, even though, from a practical standpoint, Marchionne had already managed Chrysler since the beginning of their cooperation. (Fiat, 2012)

The group concluded 2011 as a consolidated company. The operating profits kept growing and especially Fiat showed good results and doubled its operating profits. (Fiat, 2012)

In January 2012, Fiat-Chrysler reached Chrysler's third performance milestone. The realization of the Dodge Dart, a fuel-efficient compact car based on a Fiat platform, provided Fiat with an additional 5% of shares. Fiat now held 58.5% of Chrysler and was making preparations for the purchase the outstanding 41.5% of VEBA (Voluntary Employee Beneficiary Association Trust)

In 2013, Fiat prepared itself for the minority stake acquisition of UAW (United Auto Workers). Chrysler filed documents in order to obtain a public stock offering. The UAW was afraid that the price paid by Fiat would not correspond with the fair value of the shares.

Fiat was suffering from the European recession and the Italian debt crisis. In 2013, total passenger car registrations fell to 11.5 million cars. (ACEA, 2013) Fiat's operating performance was poor. After €187 million of EBIT in 2012, Fiat reported losses of €188 million in 2013 (Fiat, 2014). In the same year, Chrysler's sales grew by 3%. The group results were positive, thanks to Chrysler's performance (Fiat, 2014).

Marchionne was well known as one of the hardest negotiators within the car business. He reached an agreement with VEBA, in which VEBA's payout was less than expected. Fiat gained full control of Chrysler by paying $4.35 billion to the trust. Fiat acquired the 41.46% stake by paying $3.65 billion in cash and $700 million gradually over three years. More interesting was the fact that the cash amount came from Fiat and Chrysler's reserves. Chrysler's contribution was $1.9 billion and paid, at least to a certain extent, for its sale to Fiat (Reuters, 2014).

The deal became effective on January 20, 2014. The deal allowed Fiat Chrysler to avoid a public IPO for the stake of VEBA. The acquisition after an IPO would have been far more costly.

The acquisition of the outstanding shares did also pave the way for a complete merger from a legal perspective. The plan of the management teams on both sides of the Atlantic consisted in founding a new legal entity, namely FCA. FCA should be incorporated in the Netherlands. Marchionne justified the move with an increased competiveness. FCA should be more competitive in respect with its competitors also regarding taxation.

The criticism in Italy and the U.S. were loud. However, FCA was established on October 13, 2014 and was listed on the stock exchange of New York and Milan. Marchionne commented the successful listing in the following way:*"FCA's listing today on Wall Street is the culmination of five-and-a-half years of work to achieve an extraordinary union. It marks the hard-won arrival at a destination. Yet, like so many milestones, it represents not just an ending, but also a new beginning – the beginning of our journey as one global automaker, one FCA."* (FCA, 2015)

7. A valuation model for M&A transactions

7.1 Introduction

To assess whether a M&A transaction might be successful or not is the most important task prior to the conclusion of the agreement itself. Interestingly, most of the existing models fail to analyze multiple dimensions. Synergies are considered to be the most important measurement for potential success. Experts do agree that the success of a M&A transaction depend on several components. As already mentioned, strategic compatibility, the M&A plan and implementation, cultural fit as well as macro-economic issues play an important role.

Studies have emphasized that the failure rate of M&As still exceeds 50%. Therefore, an instrument to value the compatibility of two merging companies would be urgently needed.

Many empirical studies have considered the value creation in M&A transactions. Most of them tried to find key drivers by analyzing a vast number of past transactions. Mukherjee et al (2004), focused on the merger motives of CFOs. However, strong potential synergies or diversification desires do not guarantee success, even though they were named as the most important motives for mergers.

Prior research did not cover the overall differences of Daimler and Fiat that might explain the failure of DaimlerChrysler and the success of FCA. Studies, such as the paper of Pedersen about the acculturation in M&As with reference to DaimlerChrysler and FCA, touched only on one of the reasons for the mergers failure. It is generally agreed that cultural clashes lead to more problems during the merger implementation phase and often cause insuperable hurdles. Nevertheless, there are millions of cross-border mergers that had success despite significant cultural differences. The Italian culture also appears to be different from the American one. Yet the Fiat Chrysler merger, was successful despite those differences. Hence, it can be concluded that the cultural differences alone would not be the determining factor for success.

During the M&A process, the M&A teams and their respective advisors are well aware of potential risks and problems of a merger. Potential synergies but also risks are often graphically presented during the presentation in front of the senior management. However, people tend to be blinded by the promise of a wide range of advantages a merger could yield and furthermore struggle to identify the right candidate amid the many reasons a merger could fail.

Researchers have tried to figure out reasons for why M&As have such a high rate of failure, however, there is little, or no material at all able to provide tools capable of depicting and calculating the likelihood of success of M&A transactions prior to their conclusion. In order to assess the general compatibility of merger candidates and therefore the probability of success, my idea was to develop a universal and multidimensional model. The model was thought to provide a quick but reliable overview about the probability for a successful merger. M&A teams struggle to deliver understandable information about the compatibility of candidates during the screening process.

7.2 Research Design

It was clear that a potential model had to be multidimensional so as to incorporate multiple important factors of M&A transactions. However, in order to simplify the operation and to provide a fast tool to assess compatibility, only the four main success drivers were included.

The base model consists of a slightly modified Cartesian coordinate model. Instead of two axes x and y, reaching from $-\infty$ to $+\infty$, it is advisable to change it into a four axes model, starting from zero at the intercept and ending with five.

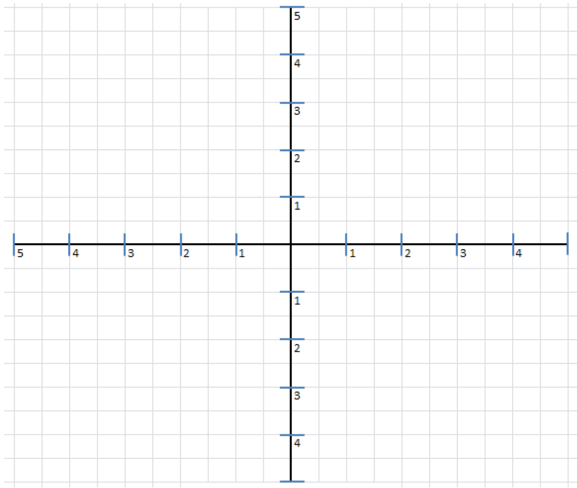


Table 5 - The model basis

The four axes illustrate the compatibility of two merger candidates, each axis has a maximum compatibility (perfect fit) of five and a minimum compatibility of zero (no fit).

The selection of the success drivers was based on empirical studies. As many studies and books show, the four most important reasons for a successful merger are the following:

(1) Potential synergies: The amount of potential savings and improvements
(2) Strategic fit: The strategic compatibility of two merging companies
(3) Cultural fit: The compatibility of two corporations from a cultural point
(4) Post-merger plan: The quality of the integration plan

1. Potential synergies

Potential synergies often provide the basis for an M&A consideration and are named as the most important motives. The combined value of both companies after a merger should therefore be greater than the sum of the standalone value of each company prior to the merger. This can be achieved by realizing economies of scale and scope as well as working more cost efficient.

The amount of potential synergies fundamentally matters in the valuation model. It is assumed that the pressure on the management and personnel depends on the amount of potential synergies. When only few synergies are available, the pressure of a precise and effective implementation is high. On the other hand, whenever a multitude of synergies can be explored, even a lower realization rate would be considered a success, since the absolute amount in savings would still be positive and the fact the merged companies would still yield greater advantages than compared to their situation prior to the merger.

However, as McNish, Sias and Christofferson (2004) state, it is important to acknowledge dis-synergies in revenues and subtract them from the estimated synergies. Dis-synergies result from the disruption of both companies and a consumer loss during the integration phase.

According to Kengelbach et al. (2013), the median announced synergy per industry varies widely. They surveyed a sample of 365 deals with transaction values of more than \$300 million that took place from 2000 until 2011. The overall median throughout all industries was around 1.5% of synergies of the combined sales of both merging companies. Therefore, it can be concluded that a generic formula would not make sense.

It is advisable to create an industry specific categorization model in order to match announced synergies with the score system of the proposed model.

Starting with the median of the appropriate industry, based on the research of Kengelback et al. (2013), the scores are distributed in the following way:

Let x be the announced synergies of the merger in percentage of the forecasted combined revenues and μ the industry median value:

MODEL SCORE	RULE
0	If $x < \mu - 2\sigma$
1	If $x < \mu - 1\sigma\ and \geq\ \mu - 2\sigma$
2	If $x < \mu\ and \geq \mu\ - 1\sigma$
3	If $x < \mu + 1\sigma\ and \geq \mu$
4	If $x < \mu + 2\sigma\ and \geq\ \mu + 1\sigma$
5	If $x > \mu + 2\sigma$

Unfortunately, Kengelbach et al. (2013), did not reveal the standard deviation of the sample. However, they provided detailed numbers of synergies in the oil industry. Assuming that the standard deviation might be similar in most of the sectors, it was computed and used as a reference. The standard deviation in the oil industry was **0.54**.

By applying the described valuation model, a final score for the synergy effect is obtained. The number can be used for the further computation of the total fit.

2. Strategic compatibility

Strategic compatibility is a broad term and is hard to define accurately. Shelton (1988) states that the strategic fit is given, when two firms have created value that would not otherwise have been created, if the same goal had been pursued separately. Shelton went further and introduced the terms of related-complementary and related-supplementary fits. The former brings new products together, i.e. assets and skills of already shared markets; the latter, on the other hand, adds new markets while products and assets stay the same.

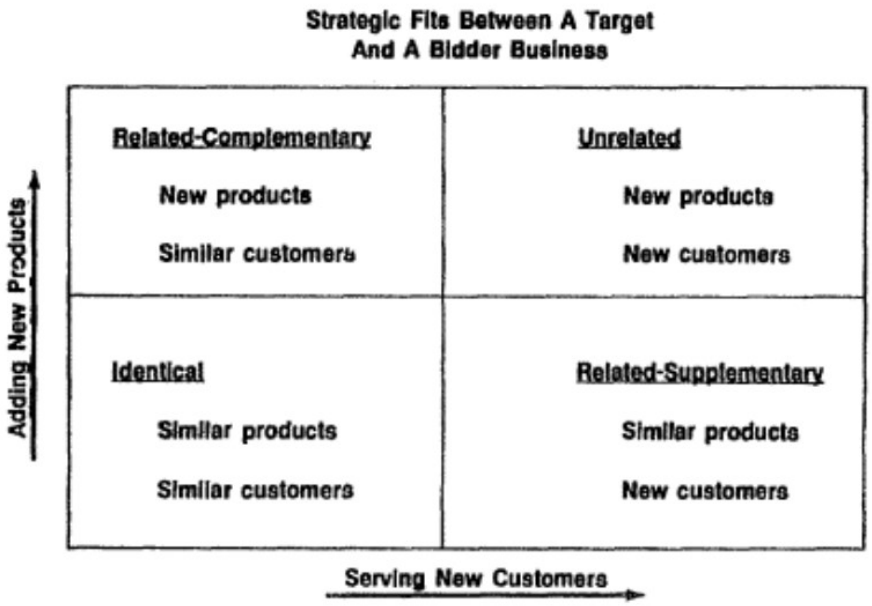


Table 6 - Shelton's Strategic Fit Model

Shelton (1988) states that unrelated businesses correspond with a low potential of possible synergies, whereas related-supplementary companies could lead to significant economies of scale. Related-complementary businesses instead, translate into a high potential for economies of scope and give the opportunity to strengthen the market position and expand the product portfolio. In the case of identical businesses, cross-sellings as well as economies of scale are possible.

Shelton went further and tested the four fits for value creation. The outcome was a ranking showing the ability to create value. The ranking showed identical companies to be the strongest, followed by related-supplementary companies in second place, related-complementary in third and unrelated businesses in fourth place.

A second, even more interesting approach is the case of complementarity companies in strategic fits. Medcof's overlapping model stresses the ability of companies to cover the weaknesses of each other. Medcof (1997) developed a model that graphically represent two firms and their respective strengths and weaknesses. If they do not overlap, the conditions for a successful merger are positive.

In order to determine the final valuation of the strategic fit of two merging companies, it is necessary to apply a strengths and weaknesses analysis on both firms. The shortened SWOT analysis should identify the major strengths and weaknesses in the following segments:

A) MARKETS

The companies are valued under the aspect of their markets. What are their strengths and where could weaknesses be detected.

B) PRODUCTS

An analysis of the product portfolio is conducted. What are the strengths of each company? Where do the comparative advantages lie in? What are possible weaknesses, such as quality, low diversification, or lack of innovation?

C) TECHNOLOGY

The strengths and weaknesses analysis is also applied to the field of technology and innovations. What are the technological strengths of each company? Do they possess valuable patents or licenses?

D) EFFICIENCY

In addition, the efficiency of both merger candidates is assessed. How efficient are the IT systems, how productive their plants?

E) PERFORMANCE

The financial performance is the last aspect to be valued. Both companies are tested in terms of their profitability, how their growth rates have developed and how indebted they are.

The final score of the total strategic fit is obtained through a simple comparison of the strengths and weaknesses of both companies. Each complementation of strengths and weaknesses corresponds with one point. Therefore, since five categories exist, the total possible score would be the maximum of five, which is to say a perfect strategic fit.

In other words, the two candidates would perfectly complement each other and neutralize the weaknesses of each other. The ideal conditions for a successful merger. On the other hand, if two completely equal companies merge, corporations with the same strengths and weaknesses, the score would be equal to zero. It would be unlikely that the combined businesses create more value than each business considered by itself, even though some saving potentials would definitely exist.

3. Cultural fit

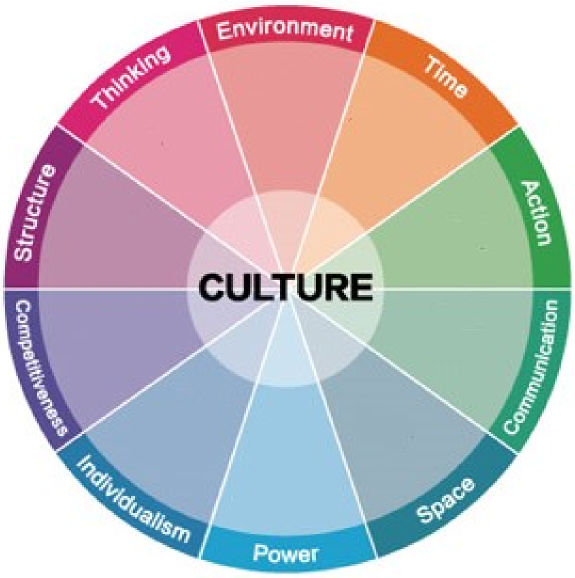
The third axis of the model describes the cultural fit or compatibility of two companies. As already explained, cultural discrepancies were one of the major issues in the DaimlerChrysler deal. Even though the management team was aware of some problems, it failed completely to address them. Cultural differences in cross-border mergers can be hurdles hard to overcome. However, the corporate culture itself can differ from national cultural standards. According to my opinion, it is more accurate to analyze the internal culture and compare it with the culture of the merger candidate.

In order to value the corporate culture in a standardized way, the Berlitz COI© (Cultural Orientations Indicator) was used as a starting point. Berlitz, a global corporation in leadership and language training, developed an indicator to develop culturally competent leaders. It should train managers to be aware of cultural differences and behavior. Berlitz describes it as a framework for describing, comparing, mapping, and analyzing the components of culture at any level. It provides a shared language and comprehensive lens with which to analyze cultural phenomena and cultural encounters. (Berlitz, 2010)

Berlitz's unique COI© model assesses 10 dimensions and 21 sub dimensions of workplaces based on perception and preferences in the work environment.

The 10 dimensions are:

1. Environment
2. Time
3. Action
4. Communication
5. Space
6. Power
7. Individualism
8. Competitiveness
9. Structure
10. Thinking



The ten dimensions try to plot the view of individuals in the corporation and their perception of culture. The complex sub dimensions were simplified and constructed in way so that the model provides two possible perceptions for each dimension.

Environment:	control/harmonic
Time:	traditions oriented/ future oriented
Action:	being/doing
Communication:	formal & indirect/informal & direct
Space:	private/public
Power:	hierarchy/equality
Individualism:	individualistic/collectivistic
Competitiveness:	competitive/cooperative
Structure:	order/flexibility
Thinking:	deductive/inductive

Schmitz and Butera provided further clarifications regarding the single dimensions of the COI© model in their manual. (Schmitz & Butera, n.d.) The manual explains how the different dimensions are applied. The table below was extracted from their work.

Cultural Dimension	Cultural Continuum	Cultural Orientations Descriptions
Environment	Control Harmony	People can dominate the environment; it can be changed to fit human needs. People should live in harmony with the world around them.
Time	Tradition oriented Future oriented	High value placed on continuance of traditions. Willingness to trade short-term gain for long-term results.
Action	Being Doing	Relationship-centered. Stress placed on working for the moment; experience rather than accomplishment. Task-centered. Stress placed on productive activities in goal accomplishment and achievement.
Communication	Direct Indirect	Preference for explicit one- or two-way communication, including identification, diagnosis and management of conflict. Preference for implicit communication and conflict avoidance.

Space	Private Public	Individual orientation to the use of physical space. Preference for distance between individuals. Group orientation to the use of physical space. Preference for close proximity.
Power	Hierarchy Equality	Value placed on power differences between individuals and groups. Value placed on the minimization of levels of power.
Individualism	Individualistic Collectivistic	The “I” predominates over the “we.” Independence is highly valued. Individual interests are subordinate to group interests. Identity is based on the social network. Loyalty is highly valued.
Competitiveness	Competitive Cooperative	Achievement, assertiveness and material success are reinforced. Stress is placed on the quality of life, interdependence and relationships.
Structure	Order Flexibility	High need for predictability and rules, written and unwritten. The unexpected is not valued. Tolerance of unpredictable situations and ambiguity. Dissent is acceptable.
Thinking	Deductive Inductive	Reasoning based on theory and logic. Reasoning based on experience and experimentation.

After the assessment of the corporate culture of each of the merging companies, the outcomes are compared to each other. Every sub dimension in common corresponds with a 0.5 increment in the final cultural fit score. Fully compatible cultures would obtain the total score of five, whereas totally different working cultures with nothing in common would result in a total score of zero.

The final score represents not the compatibility of the two companies, but also the effort that is needed to merge the two companies from a cultural standpoint. Most of the cultural differences are manageable, provided the management has awareness of them and prepares an appropriate plan to overcome those cultural hurdles.

4. Post-merger integration plan

The last and fourth axis represents the quality of the post-merger integration plan. Most of the fusions fail due to an inappropriate planning of the post-merger phase. M&A teams tend to focus primarily on the evaluation of the most tangible candidate and the quantification of the possible synergies, but underestimate the importance of the post-merger integration. Most of the time, good synergies on paper do not automatically lead to good synergies in practice. In addition to that, the results and integration steps have to be monitored and reviewed, and adjustments of the plans have to be made.

According to Khanna (2013), the real challenge is to create value during the post-merger phase. Khanna states that the most important time frame are the first 90 days, where the path is set and feasibility of the plan is mostly tested.

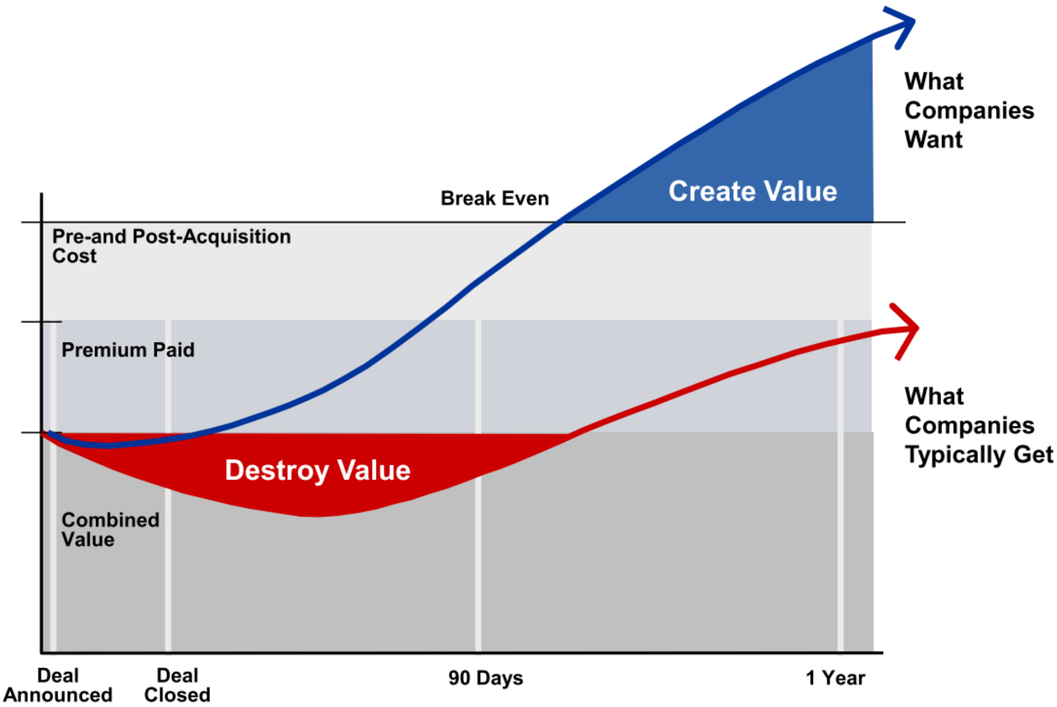


Table 7 – Post Merger Integration
Source: (Khanna, 2013, www.uni-stuttgart.de/infotech/pdf/bma13/BMA13_Mergers.pdf)

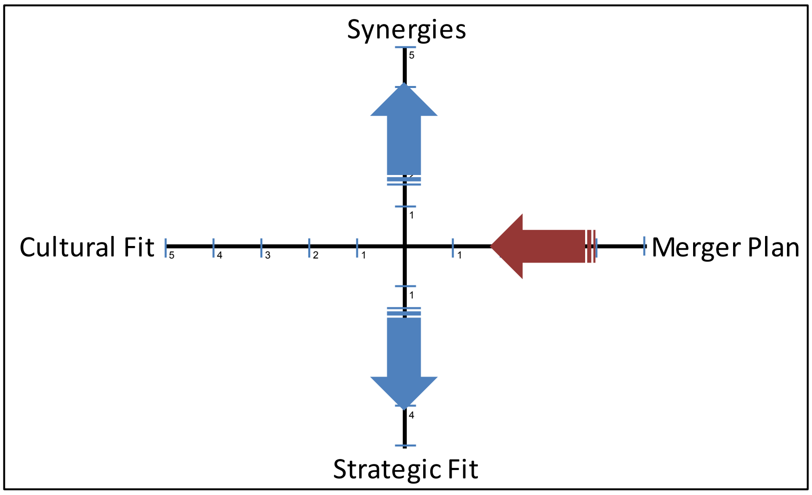
Given its importance, the post-merger plan has to play an essential role in the valuation model. However, the challenge consists in finding a standardized method for valuation.

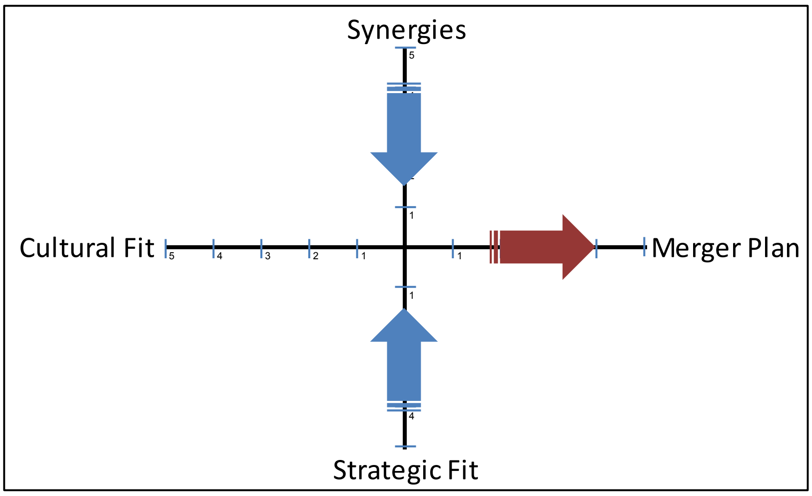
The first step is to understand how difficult the analyzed merger would be to perform. There are different kinds of mergers. From a full-integration merger down to a merger where both companies continue to exist with their respective brands, networks and administrations.

It is important to underline that a merger plan has to be more sophisticated when two companies want to fully merge, on an operational, financial, and administrative level.

The dynamic is that when synergies and strategic fit are high, the pressure on the merger plan increases. Lower merger synergies such as in a merger of equals tend to result in a higher probability of catching them, given that the same merger plan and commitment was applied. In addition to that, it adjusts for overestimated figures in the announced synergies effects. Companies tend to overvalue their potential synergies with another corporation. Many studies have shown that the actual number of realized synergies is much lower compared to what they announced.

Graphically it can be explained in the following way:

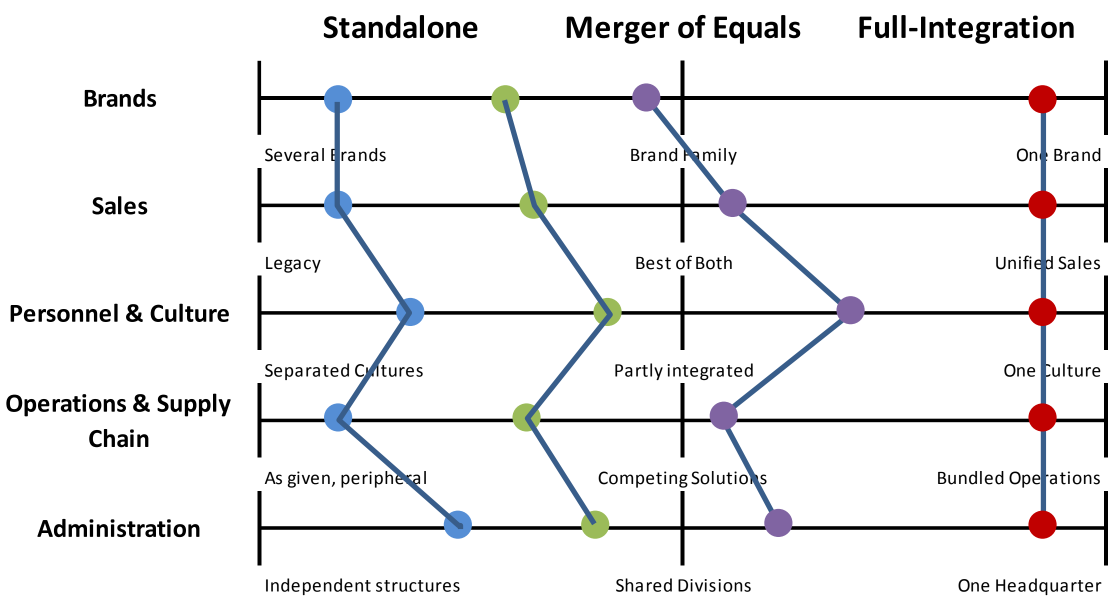




It is fundamental to understand that the cultural fit is independent from such scenarios. Instead, high synergies and highly cultural compatible firms will lead to a significant improvement of the overall fit.

The best-case scenario would be if synergies and strategic fits are high and the merger plan is adjusted for the increased difficulty to catch all synergies. The outcome would be an almost perfect probability of success.

To assess the type of merger Hurter developed a practical model. (Hurter, 2011) He analyzed five fields: brand strategy, sales, personnel, operations and administration. Hunter then went on to provide a tool that allowed for mergers to be understood in terms of one of the four types mentioned above:



The was pointed to above, the example depicts four different types of mergers, namely the blue marked "Cross-industry deal", the green "Cross region deal", the violet "Capability deal" and the red "Volume deal" – which is also the most complex of the four.

In order to implement Hurter's idea into my valuation model, some changes had to be made. Every potential merger is going to be assessed under the criteria of Hurter, however, there are only three main categories. The standalone category implies a kind of merger with a low level of integration, which facilitates the merger itself. Therefore, each field categorized as standalone adds 0.5 points to the final score.

The neutral category of "Merger of equals" corresponds to a normal level of integration, meaning that some parts are unified, while others are not. The neutral category has no impact on the total merger score. As a result, each field adds zero points.

The "Full-Integration" category, on the other hand, diminishes the final score by 0.5 points for each field. The "Full-integration" describes the highest level of integration and is therefore the most complex and challenging kind of merger. The increased difficulty also decreases the probability of the overall success rate.

The table below demonstrates graphically how every field is categorized and how it affects the overall score.

Integration level determination	Standalone	Merger of Equals	Full-integration
Brands	+0.5	0	-0.5
Sales	+0.5	0	-0.5
Personnel & Culture	+0.5	0	-0.5
Operations & Supply Chain	+0.5	0	-0.5
Administration	+0.5	0	-0.5

The second part of the valuation consists in assessing the post-merger integration plan of the merging companies. It is clear that most of the companies will announce great commitment and dedication. No company would admit that the dedicated resources might be insufficient to achieve the explored synergies.

Hence, a customized model that analyzes again five fields should be applied. Many experts have published academic studies on how important those fields are for the post-merger integration:

1) COMMITMENT: The commitment of the top- and lower level management is key for a successful integration. Commitment cannot be measured in an objective way, especially at a time prior to the actual merger. However, certain announcements such as indications on how the management structure will change or reports on how often controls will be conducted, can provide useful information regarding the actual commitment.

2) RESOURCES: Resources such as capital and workforce are important for the realization of the merger synergies. Information about how large the post-merger integration team will be or how integration costs are calculated give a glimpse into how dedicated the management is to fully merge with the other company.

3) EXPERIENCE: Experience in the M&A process and especially in the post-merger integration can facilitate it significantly. Despite the fact that every merger has its own characteristics and is determined by different circumstances, they, in general, share certain processes. Experienced knowledge of those processes would help to avoid certain mistakes during post-merger integration.

4) NECESSITY: It might seem banal, but the necessity for a merger can influence the outcome significantly. Examples for necessary mergers can be anything from financial troubles of one or both companies to regulatory changes in the market or even changes in the macroeconomic environment. Therefore, the pressure on both merging companies is higher which in turn leads to a more serious approach and a higher success rate.

5) COMMUNICATION: The last analyzed field is the communication policy of the companies. Proactive and planned communication helps to overcome information discrepancies and reduces uncertainty among stakeholders. Investors, suppliers as well as the staff appreciate accurate and on-time information. This leads to a better supportive behavior in general and increases the probability of success.

The valuation process itself is similar to the one described before. Each field can be characterized with one out of three different categories: negative, neutral and positive. The added scores, however, are inverted. A positive plan, for example, adds more points to the final score. The table below describes the way in which they operate:

Merger plan valuation	negative	neutral	positive
Commitment	-0.5	0	+0.5
Resources	-0.5	0	+0.5
Experience	-0.5	0	+0.5
Necessity	-0.5	0	+0.5
Communication	-0.5	0	+0.5

Since, for the first time, two models are used to determine the final score, the way of calculating has to be modified as well. For the previous axes, the score is formed by simply summing up the results. In this case, the starting point has to be moved to 2.5. This guarantees that, if all valuations are neutral, the final score will be 2.5 instead of zero.

In addition to that, two limits have to be introduced. Since the scale of the axis is limited, the minimum score is zero despite the potential outcome of -2.5 in the case of full-integration and a negatively valuated plan. The same principle applies to the contrary case of a standalone scenario combined with a positive merger plan. The outcome would be 7.5, but it should be limited to five.

Mathematically expressed:

$$z = 2.5 + \sum_{i=1}^{5} xi + \sum_{i=1}^{5} yi$$

$$\max z = 5$$

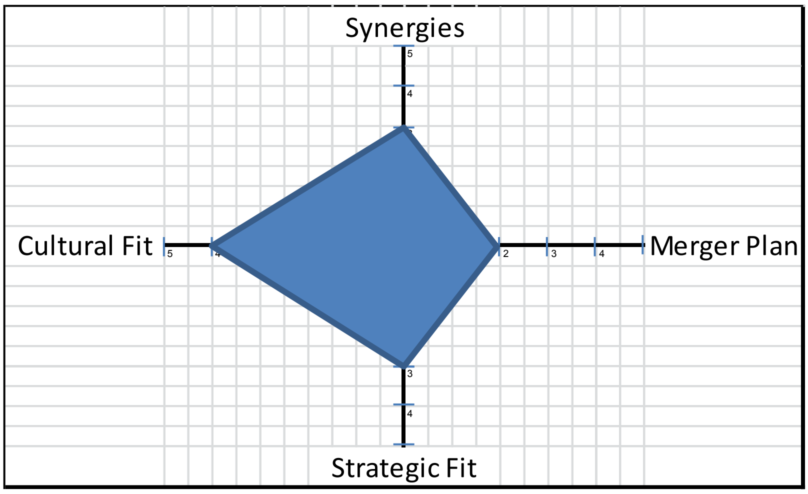
$$\min z = 0$$

Where x_i = outcomes of the integration level determination, y_i = the outcomes of the merger plan quality and z = the final score.

The final score of the merger plan then describes the probability of success of the merger.

7.3 Calculations

Only when the single motives are valued and plotted, the real calculation can commence. The single coordinates are connected and a quadratic or a trapezoidal surface should appear.



The next step is to compute the area of the surface. The surface is divided into four quartiles, while the area of each triangle is calculated by applying the formula of the area calculation of triangles. The four areas are then summed up in order to determine the total fit. Since the model is limited by a maximum of five at each axis, the maximum total fit equals to 12.5 times 4, which makes 50.

The total fit score indicates how compatible two corporations are and how probable a successful merger would be.

7.4 Limitations

First of all, it is clear that the model faces several potential limitations, just like most other graphical models. It is important to understand the advantages and disadvantages of the model in order to correctly interpret the outcome and to be aware of possible misconceptions. The model was invented for a rational analysis of the DaimlerChrysler and Fiat Chrysler mergers. It should also serve as a denominational tool to explain the failure of the former and the success of the latter case.

The following limitations were discovered during the development of the M&A model:

1) Definition of "success": Firstly, it is important to define the term "success". The model predicts the compatibility of two merger candidates and determines somehow the probability of a successful merger. Generally, a M&A is defined as "successful" when the value of the merged companies is greater than the combined standalone values of the two businesses.

Moreover, the exact moment when measurements are made is critical. Listed companies often face distortions during the integration phase. Investors are generally frightened by uncertainty and information inequality. Therefore, market capitalization might be lower compared to the combined capitalization of the two pre-merger companies.

2) The assumption of proportioned distribution.

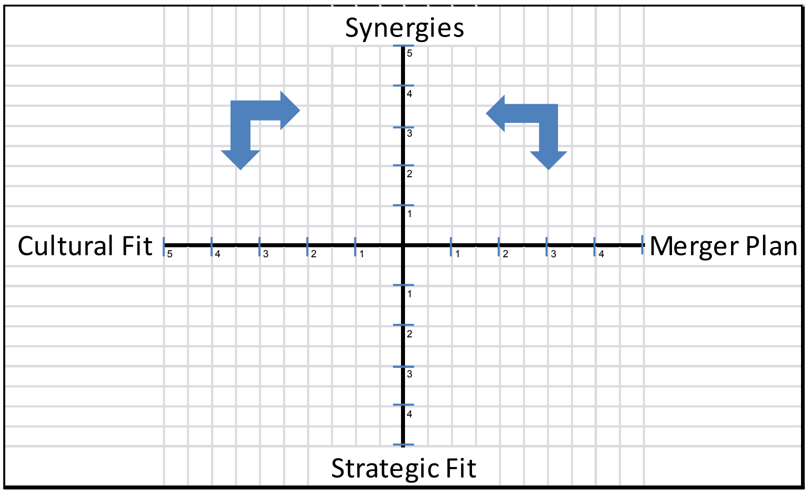
The nature of the model includes a proportioned weight of each of the four axes. When summing up the surfaces, every component is as important as the other. However, the reality could well be different. In some cases, the synergies might be more important for a successful merger than cultural fit. In order to adapt the model and to introduce stretched or compressed axes to reflect differing contributions, an empirical study of all the major reasons for success and failure in M&A transactions would have to be done. For reasons of simplification, this research is based on the assumption of a proportioned contribution of each axis.

3) Subjective assessment

The evaluation and assessment of some components remain a subjective perception. The merger plan and the evaluation of the corporate culture cannot be based on objective facts. Therefore, misinterpretations might be possible. The model should be applied by independent consultants in order to avoid personal preferences of the M&A team, which may indirectly influence the outcome by subjectively over- or under valuating certain parts of the model.

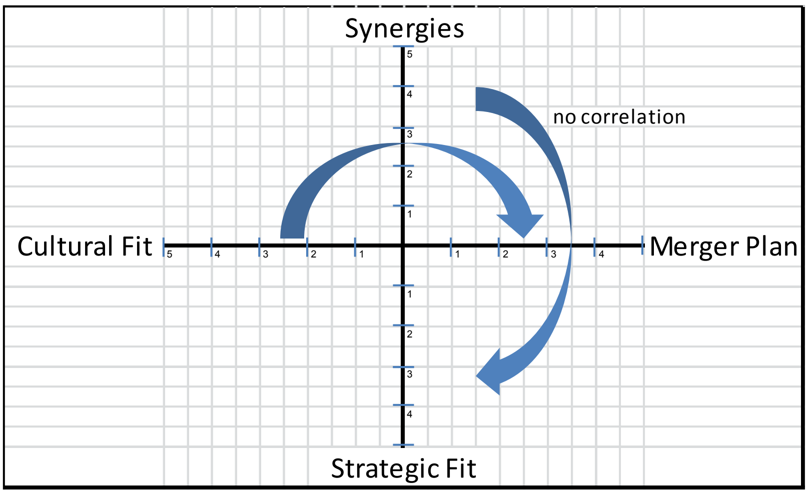
4) Interrelations of the single determining factors

The model is highly interrelated due to the system's intention of calculating the total fit. Since the surface of each quartile is calculated, only two axes at a time can determine its dimensions. Given the position of the single axes, relations necessarily appear. Synergies, for instance, are linked to the cultural fit as well as the merger plan.



While synergy effects might be high, they would still not contribute to the overall fit, in cases where the cultural fit and merger plan were zero. This, to a certain extent, makes sense. Potential synergies cannot be achieved, if the merger integration plan fails to unlock them or the companies are totally incompatible from a cultural point.

However, the motives' positions within the model also imply that at least two of them will, at all times, be uncorrelated. For that reason, synergy effects, will always be unrelated to the strategic fit; the same holds true when looking at the cultural fit and merger plan.



Of course, it could also be assumed, that the reality is different: all motives are interrelated, even though certain relations are stronger, while others are less significant. When applying the model, this limitation has to be kept in mind.

5) Other critical factors excluded

The model is meant to graphically represent the preconditions of a possible merger that are critical in order to evaluate whether a merger could be successful or not. However, it should be noted that many other factors are not included. In fact, the success does not only depend on these four major conditions. Macro-economic circumstances, the regulatory environment or the behavior of stakeholder as well as the actions undertaken by main competitors, can heavily influence the probability of a successful merger.

Nevertheless, the model provides useful graphical information that allows for an initial assessment as to the overall practicality of a profound analysis of potential merger candidates. Moreover, the model actively compares compatibility on a standardized and intelligible basis among different corporations.

7.5 The DaimlerChrysler and Fiat Chrysler Cases

The DaimlerChrysler and the Fiat Chrysler cases are very interesting M&A cases under several aspects. Firstly, given their relatively recent occurrence, they reflect current merger issues and can be used to understand actual trends in the markets. Secondly, because the intentions for concluding a merger, namely to strengthen the global position and to become more competitive by merging with the American auto giant, were fairly similar for both car companies. Lastly, what makes the DaimlerChrysler and Fiat Chrysler mergers most interesting for the purposes of this research is that one failed whereas the other was successful.

As already mentioned, the differences between Daimler-Benz on one hand and Fiat on the other hand, have been quite significant. However, the aim of this thesis was to develop a framework that compares merger, highlights intersections and emphasizes potential threats.

7.5.1 Application of the model – DaimlerChrysler

In this section, the model is applied to Daimler and Chrysler in order to analyze their overall compatibility. The model starts with the analysis of the potential synergies, continues with the assessment of the cultural fit, onto the valuation of the strategic fit, and ends in the issuance of a final score to the effectiveness of the merger plan.

<u>Synergies</u>

As already described, the task is to compare the potential synergies of the merger with the industrial median and to rate the outcome. DaimlerChrysler announced in their statements regarding the merger that the combined business would achieve annual $1.4 billion in synergies starting in 1999. (DaimlerChrysler, 1999)

To recall, Kengelbach et. al. (2013) analyzed a range of industries and have found a median for each of them. The median describes a percentage that is obtained by dividing the announced synergies with the combined sales prior to the merger.

The industry average of the automotive sector is 1%. So on average, the announced synergies were about 1% of the combined pre-merger sales.

In order to get the percentage, the actual revenues were necessary. The data was extracted from the income statements of 1997, since 1997 was the year in which the last full annual report was published.

Chrysler recorded sales of $61.1 billion (Chrysler Corporation, 1998). The Daimler-Benz group reported revenues of 124.1 billion DM (Daimler-Benz, 1998). To convert the DM into $, the exchange rate of the 31st of December 1997 was applied. At the time that rate was 0.5558$/1DM. The data was obtained from xe.com, a trusted currency authority. The converted sales amounted therefore to $69 billion. The combined pre-merger sales came up to a total of $130.1 billion.

The percentage of the announced earnings in comparison with the combined sales was the following: $1.4 / $130.1 *100 = **1.08%**

MODEL SCORE	RULE
0	If $x < \mu - 2\sigma$
1	If $x < \mu - 1\sigma$ $and \geq$ $\mu - 2\sigma$
2	If $x < \mu$ $and \geq \mu - 1\sigma$
3	If $x < \mu + 1\sigma$ $and \geq \mu$
4	If $x < \mu + 2\sigma$ $and \geq$ $\mu + 1\sigma$
5	If $x > \mu + 2\sigma$

The final model score is computed by comparing the outcome with the table of model scores. Given that μ is 1.0 and σ is 0.54, the x of 1.08 enters in the category of model score three. Therefore, the final score for DaimlerChrysler is **3**.

Cultural fit

To assess the cultural fit of two merging companies, the model uses a modified version of the Berlitz COI© model as a basis for a further valuation. Both merging companies are valued from a “corporate culture” perspective. The ten dimensions provide a solid base for the assessment of the cultural fit.

In their manual on COI©, Schmitz and Butera gave further clarifications concerning the single dimensions (Schmitz & Butera, n.d.). The manual explains how the different dimensions are applied. The table below was extracted from their work.

Cultural Dimension	Cultural Continuum	Cultural Orientations Descriptions
Environment	Control Harmony	People can dominate the environment; it can be changed to fit human needs. People should live in harmony with the world around them.
Time	Tradition oriented Future oriented	High value placed on continuance of traditions. Willingness to trade short-term gain for long-term results.
Action	Being Doing	Relationship-centered. Stress placed on working for the moment; experience rather than accomplishment. Task-centered. Stress placed on productive activities in goal accomplishment and achievement.
Communication	Direct Indirect	Preference for explicit one- or two-way communication, including identification, diagnosis and management of conflict. Preference for implicit communication and conflict avoidance.
Space	Private Public	Individual orientation to the use of physical space. Preference for distance between individuals. Group orientation to the use of physical space. Preference for close proximity.

Power	Hierarchy Equality	Value placed on power differences between individuals and groups. Value placed on the minimization of levels of power.
Individualism	Individualistic Collectivistic	The “I” predominates over the “we.” Independence is highly valued. Individual interests are subordinate to group interests. Identity is based on the social network. Loyalty is highly valued.
Competitiveness	Competitive Cooperative	Achievement, assertiveness and material success are reinforced. Stress is placed on the quality of life, interdependence and relationships.
Structure	Order Flexibility	High need for predictability and rules, written and unwritten. The unexpected is not valued. Tolerance of unpredictable situations and ambiguity. Dissent is acceptable.
Thinking	Deductive Inductive	Reasoning based on theory and logic. Reasoning based on experience and experimentation.

Table 8 - Source: Technical Manual Summary, Butera & Schmitz

Following their interpretations of the single dimensions, the next step consisted in evaluating the different corporate cultures of Daimler-Benz on the one hand and Chrysler Corp. on the other.

Starting with the environmental valuation, major differences between the German and the American style were explored. Hedderich concluded that people in Germany were more focused on work and were less involved in social interactions. In addition to that, doors in German offices are mainly closed, whereas in the United States more open office systems are prominent. Therefore, the work environment in Daimler-Benz could be described as “control” oriented, while Chrysler’s work environment struck a more “harmonic” tone (Hedderich, 2010).

Germans try to keep their good reputation. The German system focuses strongly on the continuance of traditions such as the focus on quality. The “made in Germany” label is perceived as being synonymous with an obligation to continuously deliver high quality and being respectful of an olden German tradition. Instead, the American system is much more innovation driven. Its general attitude is to learn from the past and do things better in the future. Which is why the “tradition” oriented and “future” oriented labels were believed to be most reminiscent of the two systems.

Within the “action” dimension some noticeable differences with respect to the two systems could be found. Schmidt confirmed the public perception that Americans focus more on acting and doing (“getting things done”), while their German colleagues have more regard for the “being”, which is to say academic titles, ranks, and certifications. (Schmidt, 2004)

Communication in American companies occurs in a different way compared to their German counterparts. Hedderich (2010), in his work about the German-American Inter-Cultural differences, confirmed the aforementioned perception of a more formal communication style within German corporations. Work colleagues in Germany prefer formal correspondence by applying the polite form, whereas within American corporations a more informal language tends to dominate.

As was already mentioned, Americans prefer the open office system, where ideas are shared through an open workspace. Germans, on the other hand, are more comfortable with private office policies, where a certain degree of physical distance is at all times maintained between colleagues. As a result, the label for Daimler-Benz was “private”, while the one used for Chrysler was “public”.

The “power” dimension describes the hierarchical structure of a company. Companies concerned with equality focus on the minimization of levels of power. The opposite describes clear and substantial power differences between individuals and groups. Back in 1998, both, the Americans and the Germans, applied the hierarchic system.

Schmidt (2004) in his paper on non-conventional truths about American-German businesses, concluded that Germans are more inclined to see themselves as part of a collective, whereas Americans subordinate the common good to individual needs. The outcome was therefore that the “individualism” dimension in Daimler-Benz was labeled as “collectivistic”, while the American Chrysler was labeled as “individualistic”.

Regarding the “competitive” spirit of corporations in Germany and America, it is generally agreed that both share a competitive environment. Personal achievements and material success are encouraged in both cultures. Schmidt confirmed that both cultures are ambitious and competitive (Schmidt, 2004).

Both companies also differ in terms of their internal structure. Hedderich (2010) found substantial differences in the organization of German corporations in comparison to their American counterparts. Germans prefer structure and rules. To them it is important that responsibilities are regulated and work times maintained. Meanwhile, Americans appreciate flexible organizational structures.

The last of the ten dimensions is the "thinking" dimension. The task is to analyze how the reasoning in a corporation occurs. The deductive approach is to base the companies rationale on logic and theory. Daimler-Benz in particular and German corporations in general prefer this method over the inductive approach, where experience and experimentation prevail. Americans definitely apply the inductive method.

The table below summarizes all outcomes of the cultural valuation. It becomes immediately evident that Daimler-Benz and Chrysler have faced significant cultural differences.

Dimension	Options	Daimler-Benz	Chrysler Corp.
Environment	control/harmonic	control	harmonic
Time	traditions oriented/ future oriented	tradition	future
Action	being/doing	being	doing
Communication	formal & indirect/informal & direct	formal	informal
Space	private/public	private	public
Power	hierarchy/equality	hierarchy	hierarchy
Individualism	individualistic/collectivistic	collectivistic	individualistic
Competitiveness	competitive/cooperative	competitive	competitive
Structure	order/flexibility	order	flexibility
Thinking	deductive/inductive	deductive	inductive

Table 9 - Assessment of Cultural Fit

The final score of the cultural fit is computed by finding the total number of dimensional matches. In the case of Daimler-Benz and Chrysler only two matches could be found. Each match corresponds with a 0.5 incremental in the final score, as it was in the described model design. Therefore, the total score for Daimler-Chrysler was:

$$CF = 2 * 0.5 = \mathbf{1}$$

Strategic fit

The third axis of the valuation model consists of the strategic fit. As already described, a strengths and weaknesses analysis in five different fields is conducted. The comparison with the merger candidate consequently allows the two companies to complement their strengths and weaknesses which in turn increases the strategic fit score.

A) MARKETS

	Daimler-Benz	Chrysler Corp.
Strengths:	**Strong presence on the European Market**	**Strong market position in the U.S.**
Weaknesses:	**Little market share in America**	**Insignificant market share outside U.S.**

The complementation in the market segment was considered to be almost perfect. Both companies had their strengths and weaknesses in the U.S. and European market respectively. The full score of one point was applied.

B) PRODUCTS

	Daimler-Benz	Chrysler Corp.
Strengths:	**Well-diversified product portfolio**	**Strong brands in the mid-sized car segment**
Weaknesses:	**Low volumes and little economies of scale**	**Little diversification**

In the product field, both companies had a potential strategic fit. Given lack of diversification in its portfolio, Chrysler could have benefited from a merger with Daimler. Daimler already had a diversified portfolio with a great reputation in the high-end segment. This had been further complemented by the gain in experience in the compact class segment after the launch of the A class. In addition to that, the sales of Chrysler could have compensated for Daimler's low volumes of production. Potential economies of scale were high, which led to a total score for products; a perfect match.

C) TECHNOLOGY

	Daimler-Benz	Chrysler Corp.
Strengths:	**Large number of patents**	Cheap and large scale technology
Weaknesses:	Little experience in the SUV and compact segment	**Lack of technical innovation**

In the case of technology, Daimler was significantly leading in terms of innovations. A merger could have brought substantial benefits for Chrysler by adopting some of Daimler's patents. Daimler, on the other hand, was relatively unexperienced in the SUV and the compact car market, which were considered to be growing markets. Chrysler's strength in producing engines and gearboxes at low cost, however, was not of great help to Daimler. Their claim for quality would not be met by Chrysler's technology. Consequently, the total score in the technology field was 0.5.

D) EFFICIENCY

	Daimler-Benz	Chrysler Corp.
Strengths:	Modern and efficient assembling plants	Low design cost
Weaknesses:	Labor intensive	Low quality of products

Daimler-Benz was known for its labor intense high-quality products. Daimler-Benz had optimized the factors around the manual labor, while Chrysler was particularly strong in designing new low cost models. By sharing platforms and technologies, they achieved significant cost reductions in comparison with its competitors. Despite potential savings and synergies, it was generally known that Daimler-Benz was not interested in sharing its plants. Furthermore, the Germans were obsessed with their product quality and therefore would never implement less costly components of Chrysler, which were considered to be low in quality. Hence, the total score for the efficiency dimension was zero.

E) PERFORMANCE

	Daimler-Benz	Chrysler Corp.
Strengths:	**Solid margins**	**Strong sales growth**
Weaknesses:	**Low growth rates in the passenger car sector**	**Low diversification across income streams**

Back in the 90ies, the Chrysler Corporation showed strong sales growth and was able to satisfy the taste of its consumers with old-fashioned American cars. However, experts criticized the lack of diversification in its income stream. Chrysler was mainly dependent on its U.S. sales. In comparison to Chrysler, Daimler-Benz, especially its passenger car division, produced low rates of growth, but solid margins. The passenger division was already well known for these characteristics. However, the management was of the opinion that the division was too small in scale in order to compete in a more and more concentrated business environment. A merger of both corporations could have brought on a significant diversification of income. Also, the different growth rates had the potential of complementing each other perfectly. The overall score was one.

To calculate the total strategic fit score, the outcomes of the single dimensions were simply summed up:

Strategic fit = 1+1+0.5+0+1 = **3.5**

<u>Merger plan valuation</u>

The fourth and last category to be evaluated was the merger plan. As already described, the importance of an effective post-merger integration plan is conspicuous. Most mergers fail due to ineffective post-merger integration plans.

The first step of the valuation consists in assessing the type of the merger. Different kinds of mergers require different integration plans. The different levels of integration range from the standalone category, which describes a complete separation, to a merger of equals that corresponds with a partial integration, on to the full-integration category.

The table below determines the integration level of the Daimler-Chrysler merger.

Integration level determination	Standalone	Merger of Equals	Full-integration
Brands	+0.5	0	-0.5
Sales	+0.5	0	-0.5
Personnel & Culture	+0.5	0	-0.5
Operations & Supply Chain	+0.5	0	-0.5
Administration	+0.5	0	-0.5

Table 10 - Integration Level Determination

One of the dimensions identifies the level of integration regarding the brands of the merging companies. For Daimler-Benz and Chrysler it was clear that brands on both sides would be kept as independent brands. Therefore, the standalone category was applied.

The second category of sales is comprised of the integration level regarding sales and distribution networks. If both firms are willing to cross-sell their products and to jointly use their distribution networks, the result is a full-integration.

In the case of Daimler-Chrysler, both companies wanted to expand geographically and sell more of their products in America and Europe respectively. The access to its distributor network was granted partially. Given its brand policy, a more intense collaboration on the sales side would be hard to achieve. To apply the “merger of equals” category is therefore advisable.

Concerning the integration level of the personnel and culture, both companies were initially committed to at least partially integrate their corporate cultures. Huge programs for cultural awareness were launched. In addition to that, a company owned jet provided the possibility for mid-level managers to visit and get to know their colleagues in the states better. The category of “merger of equals” was adopted for the personnel category.

On the operations side, both corporations were hoping to exploit the potential synergies in the combined purchasing power and supplier selection. However, given the different products and quality requirements, the synergies were limited to a certain extend. Therefore, also for this category the neutral valuation of “merger of equals” was chosen.

The last dimension is formed by the administration. Chrysler and Daimler-Benz were not interested in fully-integrating their administration structures and headquarters. From an administrational point of view, both merging companies remained totally independent.

Summing the up the outcome, the overall score for the integration level is obtained.

$$\boldsymbol{IL = 0.5 + 0 + 0 + 0 + 0.5 = +1}$$

The second step of the merger integration plan valuation consists in assessing the quality of the merger plan itself. Here again, the valuation is formed by five different dimensions that can be negative, neutral or positive.

Merger plan valuation	negative	neutral	positive
Commitment	-0.5	0	+0.5
Resources	-0.5	0	+0.5
Experience	-0.5	0	+0.5
Necessity	-0.5	0	+0.5
Communication	-0.5	0	+0.5

Table 11 - Merger Plan Valuation

The management and especially Daimler’s CEO Schrempp proudly announced the merger as a milestone in the history of the corporations. They said that both sides would be fully committed to bring the merger to a successful close. If the merger had been evaluated back in the late 90ies, the outcome would have been mainly positive. Both sides seemed to be prepared for the integration. However, soon after the merger, Schrempp publicly stated that the so-called merger of equals was nothing more than a slogan. For Schrempp, Chrysler was just another acquisition.

Considering those facts, the valuation has to be adjusted. The neutral state was selected in order to reflect both the announced commitment and Schrempp's statement to better understand the Germans' mindset.

Based on the provided resources, both companies seem to have taken the merger quite seriously as they provided considerable funds to overcome cultural obstacles. On the other hand, an exchange of technological know-how never occurred. Again, a neutral valuation seemed to reflect the actual state most accurately.

Experience forms the third dimension in the valuation model. Companies can benefit from previous M&A activities. As a result, mistakes are more likely to be avoided. In the case of Daimler-Benz and Chrysler, it was generally agreed that both companies had experience with M&As. However, cross-border mergers, especially of that scale, were new territory for both companies. A negative valuation must therefore be attributed.

The need to merge with another enterprise can increase the pressure on the management and therefore lead to more sophisticated merger plans and higher commitment during the integration phase. "Necessity" can come from various sources: financial or regulatory reasons are just some examples. Daimler-Benz and Chrysler stated that the merger was needed in order to survive the future challenges. In reality, looking back one might assume that this perception rested on personal believes, more than on sound financial research. From a financial, regulatory or strategic point, they were not obliged to merge with each other. This lack of necessity corresponds with less pressure to succeed. The final valuation should therefore be negative.

Finally, the communication quality is assessed. A clear and immediate communicational concept can diminish information discrepancies and uncertainty across all stakeholders of the corporation. Daimler-Chrysler did inform its shareholders and personnel about the merger relatively quickly. Problems arose after the merger. There was no communication with regard to possible solutions to problems came to light during the integration. The leadership was weak and the personnel and suppliers were mainly kept in the dark. The overall perception of the communication plan must therefore be negative.

The last step is to sum up the five different scores according to the rules of the model:

$$\boldsymbol{MPV = 0+0+(-0.5)+(-0.5)+0 = -1}$$

Is has to be recalled, that the final score for the merger plan in the valuation model is computed by starting from 2.5 and adding the outcomes of the *IL(integration level) and the MPV (merger plan valuation).*

The total score was therefore:

MP = 2.5 +1 -1 = 2.5

DaimlerChrysler – The outcome

After the completion of the axes' valuation, each score is plotted in a coordinate system. Subsequently, all four scores are connected. The trapezoidal figure indicates the overall compatibility of the two merging companies and therefore the probability of success.

The size of the surface is calculated by dividing the trapezium into four triangles. The computation is then done through the application of the proper mathematical formula.

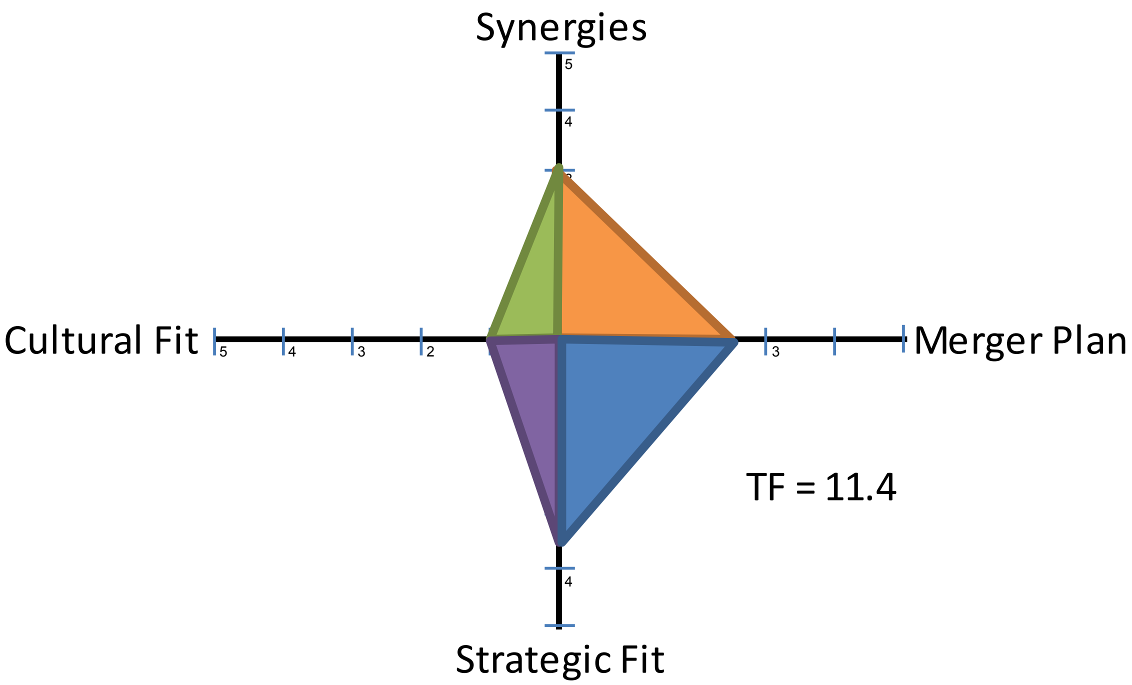


Table 12 - Calculation of the area in the case of DaimlerChrysler

In the case of DaimlerChrysler, the area was 11.4, rounded to one decimal. The total fit corresponded therefore with 11.4 out of 50 maximal points. The low cultural fit limited the chances of a successful merger.

7.5.2 Application of the model – The Fiat-Chrysler Case

To compare the two different mergers, it is necessary to apply the same valuation model to the Fiat-Chrysler case. The aim was to find reasons for the success of this case.

Synergies

Like in the case of DaimlerChrysler, the task was to analyze the potential synergies of a Fiat Chrysler merger and to compare them with the industry average. However, the case of Fiat and Chrysler has some major differences compared with DaimlerChrysler.

First, it has to be recalled, that the merger of Fiat and Chrysler started with a 35% stake acquisition in Chrysler by Fiat. Over the years, the participation was gradually extended until, in 2014, Fiat bought all of the outstanding shares. From a legal perspective, the merger occurred when Fiat and Chrysler merged into FCA on October 12 2014. However, most of the synergies have been realized already in advance.

For a fair comparison of the two mergers, the date of the evaluation had to be comparable. In addition to that, Fiat has not released any official statements regarded the targeted synergies. Even though they named synergies such as the exchange of technology, the access to their distribution network and the shared development of new models, they did not release any numbers concerning the potential cost reductions and improved sales.

Therefore, information on the quantification of all synergies does not directly stem from a single source. Bertoldi et. al. (2015) stated in their paper that the most important synergies were the following:

- Introduction of world-class manufacturing (WCM)
- Cost savings on purchases

It was forecasted that the implementation of WCM at Fiat would generate €1.9 billion of savings during the 5 year time period of 2010-2014. Through the acquisition of Chrysler, Fiat would also start to implement the WCM system at Chrysler's plants. It was expected that the cumulative savings of Chrysler would amount to €1 billion in the same time period. Breaking these forecasts down to an annual basis, it would appear that Chrysler saved €200 million per year through the merger and the adoption of Fiat's system.

Even more important were the potential savings that could be achieved through the combined purchasing power of both corporations. The merger would make it possible to reach a mass large enough to generate consistent and substantial savings on purchases. Bertoldi et. al. (2015) expected that the total savings would be approximately €5 billion over that 5-year time span. This would have corresponded to an annual saving potential of 1€ billion. The total of both fields would amount to €1.2 billion in annual savings.

Since those were the only quantifiable potential synergies, it was necessary to immediately move on to the final comparison of the combined sales and the industry average:

Like in the case of DaimlerChrysler, the potential synergies were divided by the combined pre-merger sales. In the case of Fiat Chrysler, the data was extracted from the annual statements of 2008, which is the year prior to the acquisition.

Fiat (2009) announced revenues of €59.38 billion.. Chrysler, on the other hand, at the time was controlled by the private equity firm Cerberus Capital Management. Since they were not publicly listed, the management did not have to disclose financial data. However, several rating agencies and financial data providers tried to estimate Chrysler's sales. Forbes (2009) estimated that the revenues of Chrysler stood at $47.6 billion.

The number had to be converted into one single currency, in order to be used for further valuations. Like in the previous analysis of DaimlerChrysler, the exchange rate of the 31st December 2008 was applied. At the time, the Euro stood at 1.392$/€. The data was again extracted from the portal xe.com. Chrysler's estimated sales amounted therefore to a total of €34.20 billion ($47.6/1.392= €34.20 billion). The combined sales were: €59.38 + €34.20 = €93.58 billion.

The percentage of the announced earnings in comparison with the combined sales was:

€1.2 / €93.58 *100 = **1.28%**

It is important to reiterate that industry average of automotive sector is 1%. So on average, the announced synergies were about 1% of the combined sales pre-merger.

MODEL SCORE	RULE
0	If $x < \mu - 2\sigma$
1	If $x < \mu - 1\sigma$ $and \geq \mu - 2\sigma$
2	If $x < \mu$ $and \geq \mu - 1\sigma$
3	If $x < \mu + 1\sigma$ $and \geq \mu$
4	If $x < \mu + 2\sigma$ $and \geq \mu + 1\sigma$
5	If $x > \mu + 2\sigma$

The final model score is computed by comparing the outcome with the table of model scores. Given that μ is 1.0 and σ is 0.54, the x of 1.28 enters in the category of model score three. Therefore, also for Fiat Chrysler the final score is **3**.

Cultural fit:

The cultural fit, as the second important axis of compatibility measurement, indicates how compatible the two merging companies are from a cultural point of view. Chrysler's corporate culture has already been evaluated in the Daimler-Chrysler case. Moreover, the cultural changes that took place over the ten years timespan were minor and can therefore be disregarded. Some of the characteristics have intensified over the years. The corporate culture in the U.S. and within Chrysler became even more flexible, informal and collectivistic compared to how it was back in the late 90ies. Therefore, the cultural attributes of Chrysler were not reevaluated.

Dimension	Options	Fiat	Chrysler Corp.
Environment	control/harmonic	harmonic	harmonic
Time	traditions oriented/ future oriented	tradition	future
Action	being/doing	doing	doing
Communication	formal & indirect/informal & direct	formal	informal
Space	private/public	private	public
Power	hierarchy/equality	equality	hierarchy
Individualism	individualistic/collectivistic	individualistic	individualistic
Competitiveness	competitive/cooperative	competitive	competitive
Structure	order/flexibility	flexibility	flexibility
Thinking	deductive/inductive	inductive	inductive

Table 13 - Assessment of Cultural Fit

The evaluation of Fiat's corporate culture correlated significantly with the assessment of the Italian business culture. However, Marchionne's footprint on the corporate culture of Fiat was significant.

Fiat's working environment was mainly considered as harmonic. In an Italian corporation, social interactions are important. The focus lies not only on work, like in the case of Daimler-Benz. Italians also tend to build friendships with their work colleagues. The American counterpart, Chrysler, shares this attitude.

Despite changes in its strategy and its vision, Fiat was still tradition oriented. Marchionne did not touch its core values such as design, emotions, and excellent performance, even though he pushed for a more future oriented vision with new models, ways of working and strategies.

Marchionne was able to change another Italian attitude. Before his appointment, Fiat's system based on "being". Titles and hierarchy played an important role in the Italian business culture.

Nevertheless, Marchionne started to lay off several mangers and appointed young and promising talents, who were scouted by himself. Their status was depending of their performance. The “doing” approach and a result-based valuation have become the dominant factors. The action attribute was therefore “doing”.

The differences in communication however, were still significant. The Italian way of communicating has been more formal compared to the Americans. Like the Germans, Italians use the polite “Lei” form. The overall assessment of Fiat’s communication style was therefore “formal”.

Even though a trend toward a more public workspace is also appearing in Italy, the general perception is that the workplace is mainly private. The same held for Fiat. In comparison to the Americans, Italian workers prefer to individually use private space.

The dimension “power” in Italy is characterized by hierarchical structures. Nevertheless, Marchionne wanted to create a more equal system in within its company. The symbol for his new policy was his move from the CEO office in the Fiat headquarter down to a lower level where most of the engineers work. Marchionne stated that he wanted to be at the heart of the company and not somewhere just to supervise people. He did the same later at the Chrysler headquarter. Those actions have underlined his commitment to fundamentally change the working culture. The assessment of the power in Fiat was, despite the contrary in Italy, “equal”.

According to Hofstede (2011) and his 6-D model, which provided a good overview of the deep drivers of culture relative to other world cultures, the American society is one of the most individualistic in the world. However, Italy is not far behind. The dimension describes the self-image of people in a society, whether the “I” or “we” prevails. Italy, and especially the more industrialized North, shares a strong individualistic view with the United States.

Regarding the dimension “competitiveness”, it has to be said that Italy, such as Germany and the U.S., is generally considered as a competitive society. Hofstede (2011) explains it with the masculinity dimension. According to him, Italy is highly success oriented and driven. Children are taught that competition is favorable and to be a winner is something good. Competition among working colleagues can be very strong as well.

Like with the action dimension, the footprint of Marchionne’s policy is also appearing in the structure of the company. In general, Italian companies are characterized by a hierarchical system with a strong leader at the top. However, Marchionne pushed for a more flexible system where anybody is replaceable. Despite the fact, that Fiat was not at the same level of flexibility compared to Chrysler back when the merger occurred, the flexibility however prevailed over order.

Finally, in the assessment of the way of thinking another similarity has been revealed. Italians also prefer the inductive way of thinking. Most of the knowledge is based on experience and experiments and not, like in German cultures, based on theory and logic. Already the most important cornerstone of Italian culture, namely food, is based on experiences probably back in childhood where the grandmother prepared her best pasta. Italians tend to apply that principle also at work. Therefore, the dimension's attribute was "inductive".

The total cultural fit (CF) is computed by counting the similarities of both corporate cultures and by multiplying them with 0.5 points. The outcome in the comparison of Fiat's and Chrysler's working culture was the following:

CF = 6 * 0.5 = **3**

Strategic fit

A) MARKETS

	Fiat Automobiles	Chrysler Corp.
Strengths:	**Still strong position on the Italian and Brazilian market**	**Strong market position in the U.S.**
Weaknesses:	**Little market share in the rest of the world**	**Insignificant market share outside U.S.**

The complementation in the market segment was again like in the DaimlerChrysler case considered as almost perfect. Both companies had their strengths and weaknesses in the U.S. and European market respectively. Fiat as well as Chrysler was committed to expand globally. The applied score was the maximum possible, one.

B) PRODUCTS

	Fiat Automobiles	Chrysler Corp.
Strengths:	**Strong in compact and super sports class**	**Strong brands in the mid-sized car segment**
Weaknesses:	**Little or no presence in important segments as SUV**	**Little diversification**

In the product dimension, Fiat had a comparable position to Daimler, even though the focus was on different segments. Fiat with its experience in the compact car class as well as in the super sports segment with Ferrari and Maserati complemented Chrysler in a perfect way.

Chrysler with its mid-sized cars was seeking for more diversification. Hence, they have obtained the full score of one.

C) TECHNOLOGY

	Fiat Automobiles	Chrysler Corp.
Strengths:	**Fuel-efficient small engines**	Reliable and cheap big block engines
Weaknesses:	Little experience alternative powertrains, especially hybrids	**Unexperienced with small engines**

Regarding the technology, Chrysler was known for its lack in technical innovations compared to its competitors. Moreover, new environmental regulations threatened the company because its inefficient engines would not pass the upcoming provisions. Fiat and its rewarded fuel-efficient twin and multiair engines fitted perfectly to Chrysler. On the other hand, Fiat's weakness regarding alternative powertrains would not be complemented by Chrysler. Chrysler had its strength in the production of cheap and reliable big block engines, such as V8s and V6s. However, they would not be useful in a merger with Chrysler.

The total score for the technology field was therefore 0.5.

D) EFFICIENCY

	Fiat Automobiles	Chrysler Corp.
Strengths:	**World-class manufacturing system**	Lowest manufacturing cost
Weaknesses:	High costs in Italian plants	**Low investments in further improvements**

Fiat after the appointment of Marchionne has shown a remarkable recovery. Many improvements in every department were made. Especially the introduction of the WCM (world-class manufacturing system) led the cost decrease significantly. Despite those substantial improvements, its Italian plants were still ineffective in comparison with its competitors in Europe. The strong labor unions had blocked further provisions. Chrysler on the other hand, had still the lowest manufacturing cost across the carmakers. However, given the deep financial crisis, there was no room for further investments.

From a strategic point, a merger of both could bring significant synergies by implementing the WCM also in Chrysler plants and by sharing some of the low-cost platforms. However, the burden of strong labor unions would still exist. Therefore, only 0.5 points were considered.

E) PERFORMANCE

	Fiat Automobiles	Chrysler Corp.
Strengths:	**Great recovery since Marchionne**	**Solid margins when demand is normal**
Weaknesses:	**High debt and limited competiveness**	**Deep in financial troubles due to market sensitiveness**

In 2004, Fiat stood at the edge to bankruptcy. The newly appointed CEO Marchionne has managed to pull the company out of the crisis and has proven that such a recovery was and is possible. The recovery itself is one of the key strengths of Fiat. The optimism and the provisions applied could help also Chrysler with its weakness, the deep financial crisis.

On the other hand, Fiat still has had a lot of debt. The restructuring measurements cost huge amounts of cash. If Fiat was able to do the same with Chrysler, Chrysler's solid margins would contribute to a reduction in Fiat's debt. The overall score hence, was one.

Again, to calculate the total strategic fit score, the outcomes of the single dimensions were simply summed up:

$$\textit{Strategic fit} = 1+1+0.5+0.5+1 = \mathbf{4}$$

<u>Merger plan valuation</u>

Like in the analysis of the DaimlerChrysler case, the integration level has to be determined. The table shows the level of integration in the fusion of Fiat and Chrysler.

Integration level determination	Standalone	Merger of Equals	Full-integration
Brands	+0.5	0	-0.5
Sales	+0.5	0	-0.5
Personnel & Culture	+0.5	0	-0.5
Operations & Supply Chain	+0.5	0	-0.5
Administration	+0.5	0	-0.5

Table 14 - Integration Level Determination

Fiat and Chrysler have decided to keep most of their own brands. However, both corporations have also decided to unite certain brands, such as Fiat's Lancia and the Chrysler brand. In addition to that, Fiat and Chrysler were committed to fully merge into a single entity, once they have overcome the legal burdens. The newly founded entity FCA (Fiat Chrysler Automobiles) has underlined a higher level of integration, given that their names (Fiat and Chrysler) would not be visible anymore at the first glimpse. The valuation of the integration level became therefore “merger of equals”.

The sales category was characterized by the shared distribution channels. Fiat was keen to conquer the North-American market with its compact Fiat 500 and has planned to sell its product through Chrysler’s existing network. Chrysler instead, has decided to stop its effort in Europe and to concentrate on the important American and Asian markets. Fiat Chrysler wanted a partial integration and therefore the “merger of equals” category was applied.

The management was aware of potential culture issues and has learnt something from the former merger of DaimlerChrysler. A full integration was too challenging to achieve. Therefore, like in the case of DaimlerChrysler, Fiat applied a compromise. Chrysler remained an American company entrenched in North America and Fiat an Italian carmaker entrenched in Italy. However, the exchange of knowledge and experience was warmly welcomed and encouraged. Such as DaimlerChrysler, the integration level was considered as “merger of equals”.

Regarding the operations and its supplier, FCA wanted to share assembling capacities and optimize operations in general. The implementation of the WCM system would reduce cost drastically. In addition to that, suppliers were reviewed and optimized under the aspect of economies of scale. Since most of the plants, however, remained in the hands of Chrysler and Fiat respectively, it cannot be said that a full integration occurred. Again, the category of “merger and equals” was chosen.

The category of administration was influenced by the decision to transfer the headquarter to the Netherlands. However, the corporation is still managed from the offices in Torino and Auburn Hills. Both companies have tried to integrate as many departments as possible. They work together in research and development, marketing and legal issues. The valuation chosen was again “merger of equals”.

By summing the outcomes up, the overall score for integration level is obtained.

$$\boldsymbol{IL = 0+0+0+0+0 = 0}$$

The second part was again the merger plan valuation.

Merger plan valuation	negative	neutral	positive
Commitment	-0.5	0	+0.5
Resources	-0.5	0	+0.5
Experience	-0.5	0	+0.5
Necessity	-0.5	0	+0.5
Communication	-0.5	0	+0.5

Table 15 - Merger plan evaluation

The commitment during the merger of Fiat and Chrysler was outstandingly high. Chrysler wanted to avoid another disaster such with the merger with Daimler-Benz. In addition to that, the public pressure on Chrysler was more intense. The fact that they had received capital injections from the government urged them to work hard to find a solution. Carmaker Fiat instead, had changed its corporate culture significantly since the appointment of Marchionne. The general commitment to implement new ideas and concepts was higher. Therefore, the valuation of the commitment was "positive".

Resources used to be problematic for both, Fiat and Chrysler. Chrysler, deep into the financial crisis and surviving only with governmental capital injections, could not afford large expenditures for the merger integration plan. On the other hand, Fiat was already highly indebted and struggled to finance the M&A transaction. Therefore, neither Fiat could provide funds for financing the post-merger integration. Those facts had a negative impact on the final valuation, which was "negative".

Regarding M&A experiences in the past, both corporations were evaluated separately. Chrysler obviously gained valuable experience after the failed fusion with Daimler-Benz. Even though the experience was negative, it was helpful for further projects such as a potential merger with Fiat. The management of Chrysler knew where the problems with the Germans laid. Fiat had not any comparable experience on the international cross-border M&A market. They were experienced in European acquisitions, however, potential benefits from such experiences were limited since a cross cultural M&A at that scale was something completely different. The final consideration of the experience category was "neutral".

The fourth dimension evaluates the necessity of a merger. In the case of Fiat and Chrysler, both were looking for a partner. Chrysler on one hand, stood at the edge of bankruptcy and the U.S. government knew that without a strong partner Chrysler would not be viable anymore. On the other hand, Fiat was looking for a partner in order to realize economies of scale and scope to be more competitive. The failed negotiations with Opel and GM paved the way for the merger with Chrysler. In general, it can be said the pressure on both sides was high but it was seen positively for a potential merger. The final valuation was therefore positive.

The last category is formed by the communicational quality of the merger plan. Communication was one of the major priorities of Marchionne. He stood several times in front of thousands of Chrysler's staff in Auburn hills. He knew that communicating targets and goals as well as the way of achieving it was key in order to gain confidence. The Americans were clearly doubtful whether an Italian carmaker would help Chrysler out of the deepest financial crisis in history. In general, the perception of the communication strategy was positive. Therefore, the final evaluation was "positive".

The last step, like in the case of DaimlerChrysler, was to summarize the five different scores according to the rules of the model. All five valuations were summed up:

$$\boldsymbol{MPV = 0.5+(-0.5)+0+0.5+0.5 = +1}$$

Is has to be recalled, that the final score for the merger plan in the valuation model is computed by starting from 2.5 and add the outcomes of the *IL(integration level) and the MPV (merger plan valuation).*

The total score was therefore:

$$\underline{\boldsymbol{MP = 2.5 +1 = 3.5}}$$

Fiat Chrysler – The outcome

After the completion of the axes' valuation, each score is plotted in a coordinate system. Subsequently, all four scores are connected. The trapezoidal figure indicates as described the overall compatibility of two merging companies and therefore the probability of success.

The size of the surface is calculated by dividing the trapezium into four triangles. The computation is then done through the application of the proper mathematical formula.

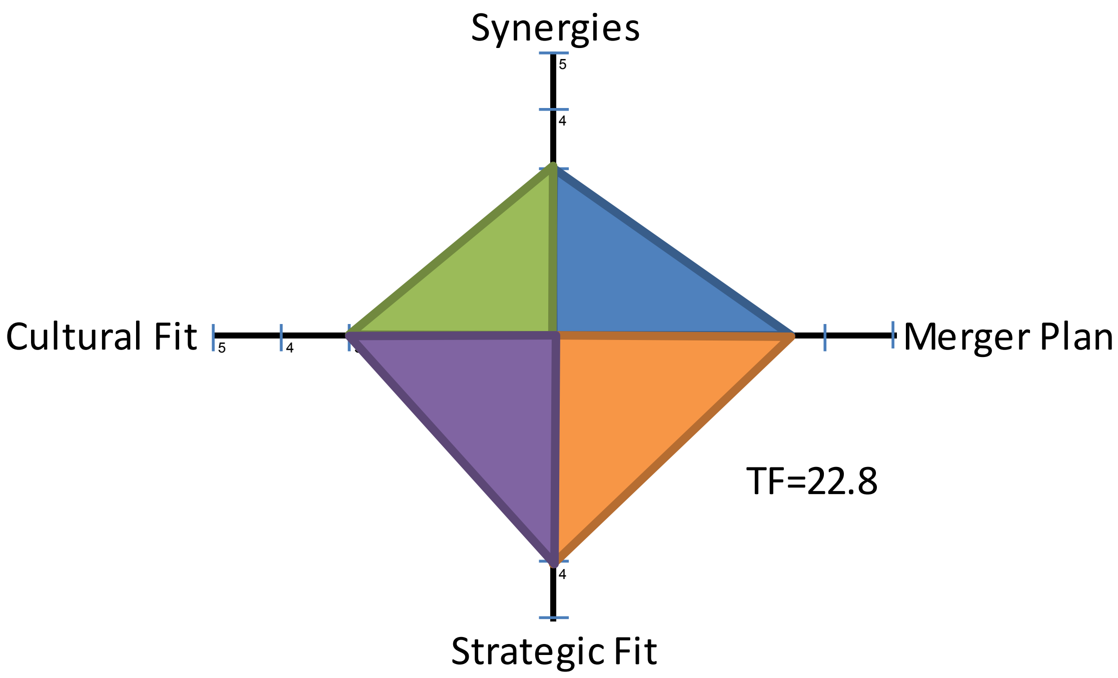


Table 16 - Calculation of the area in the case of FiatChrysler

In the case of Fiat Chrysler, the size of the area was 22.8, rounded to one decimal. The total fit corresponded therefore with 22.8 out of 50 maximal points.

7.6 Comparison of the two mergers

After the analysis of the single mergers, it was important to compare them directly. The model helps to graphically understand different compatibilities and potential hurdles. The graph below shows both mergers.

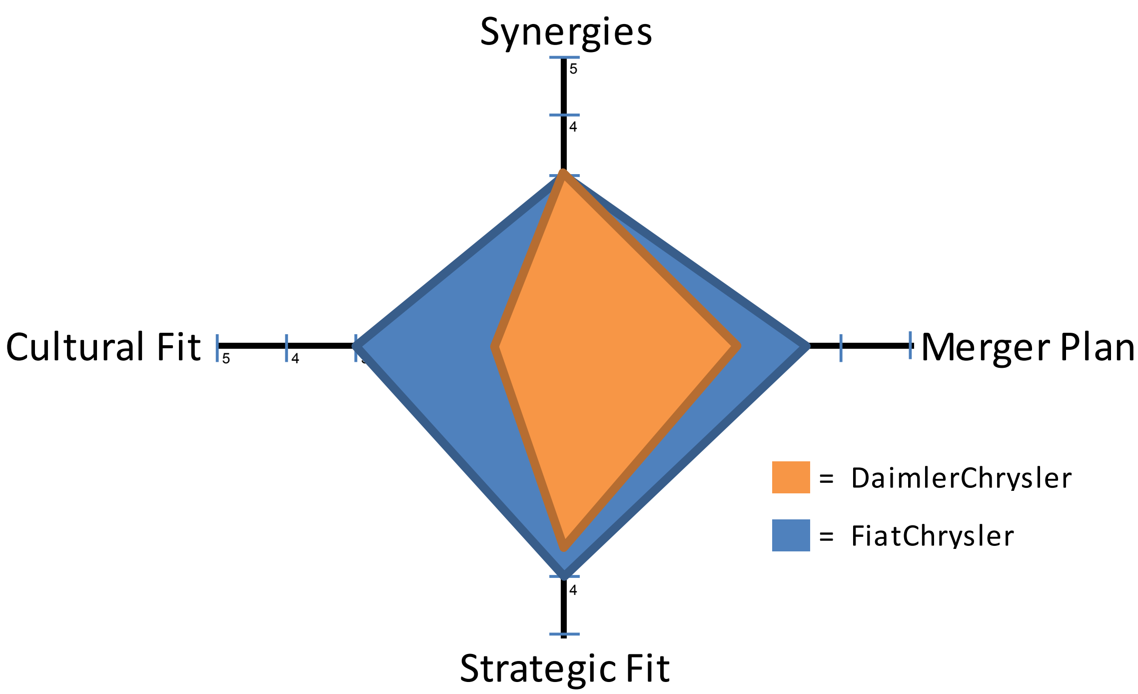


Table 17 - Comparison DaimlerChrysler and Fiat Chrysler

It can be seen that the Fiat-Chrysler merger (blue) beats the DaimlerChrysler merger (orange) in nearly every dimension.

Looking at the synergies, it appears that the starting point for both mergers, namely potential synergies and savings, was very comparable. Both have announced slightly higher saving potentials compared to the industry average, which has a low percentage relative to other industries. The preconditions for a successful merger, which are defined by a higher value of two combined businesses in respect to their standalone values, were given.

Regarding the merger plan, Fiat and especially Marchionne was far more committed and convinced to bring the merger to a successful end. Despite the lack of experience and being short on resources, Fiat was able to better communicate with the American counterpart as well as with the public. On the other hand, Daimler invested a lot of money trying to overcome with cultural hurdles. However, the mindset at the top-management level was not helpful for a successful integration. Even though they continued to emphasize the slogan "merger of equals", the Germans felt superior and acted as if the merger was another acquisition.

Only minor differences appeared in the assessment of the strategic fit. Both, Daimler and Fiat, were highly compatible with Chrysler, at least from a strategic point of view. Their product portfolios complemented each other almost perfectly, as well as their key markets.

The high strategic compatibility was probably the main reason for the positive resonance of industry experts. The doubts after the bailout of Chrysler were definitely more significant relative to the rumors before the announcement of the DaimlerChrysler deal. Clearly, the doubts were not ungrounded knowing the history of those carmakers. Nevertheless, the strategic fit has justified a merger in both cases.

Finally, the cultural fit appeared as the most disturbing dimension. The cultural fit of Fiat and Chrysler was not perfect. The differences between the working culture in Europe and America were and are still significant. It was the achievement of Marchionne, who started with a new corporate culture after his appointment in 2004, which has changed Fiat's culture considerably in respect with the average Italian corporate culture.

Meanwhile, the Germans were almost totally incompatible with Chrysler's corporate culture back in the late 90ies. The cultural ditches were deep and would have required a more sophisticated merger plan with higher commitment as well as an improved communication.

8. Conclusion

This thesis aimed to analyze the value creation in mergers and acquisitions. Over the last decades, mergers and acquisitions have become an important strategic option for corporate growth. In addition to that, M&A operations are an important tool for carmakers in order to survive in an increasingly competitive environment.

Johnson and Scholes (2008) identified four main motivations for M&A activities. First, M&A can occur due to economic motives, still the most important category. In addition to that, strategic motives and financial motives constitute the second and third group of motivations respectively. The fourth and last category contains the managerial motives.

The relevance of M&A activities was subject of many empirical studies, which tried to analyze the performance and the success factors of such transactions. However, the outcomes were heterogeneous, implying that many different motives influence the probability of success.

Nevertheless, many studies underlined the importance of the post-merger integration phase. Whitaker (2013) named several reasons why mergers often fail to generate value. The excessive focus on closing the deal instead of making the deal working or the lack of focus on operational, cultural, strategic and organizational assessment are just two examples.

Jansen (2003) provided a model to address the most influential and most critical motives for a successful integration. His 7K model identifies the core problems in the integration process and prepares the management team for potential hurdles.

Further goals of this thesis were to find the most influential success drivers in M&As and to analyze two case studies, the DaimlerChrysler merger, as well as the Fiat Chrysler merger. The fundamental task was to shed light on the reasons for the failure of the former and the success of the latter case study.

In order to measure the compatibility of merging companies, a valuation model was developed. It includes the four most important success drivers for M&A activities, according to recent studies. The model provides a standardized framework that allows comparing different mergers and acquisitions and predicting the probability of success.

The model was created in order to be applied during the evaluation of potential M&A targets. It helps to determine the overall fit of two merging companies. The model analyses the potential synergies, the strategic fit, the quality of the merger integration plan as well as the cultural fit of two companies.

It is important to understand that the model does not replace the due diligence process and the detailed analysis of a merger candidate. In addition to that, it faces several limitations. For instance, it should be noted that many other factors, which also influence the probability of success, are not included. Furthermore, given its nature, the model includes a proportioned weight of each of the four axes. When summing up the surfaces, every component is as important as the other. However, the reality could well be different. Finally, the evaluation and assessment of some components remain a subjective perception. The merger plan and the evaluation of the corporate culture cannot be based on objective facts. Therefore, misinterpretations might be possible.

Despite those limitations, the model provides a useful analysis whether intensifications of M&A negotiations make sense or not. It could be used during presentations of potential M&A targets in order to inform the senior management about the overall compatibility.

Regarding the case analysis, the model was applied to the two well-known case studies in order to understand conflicts in the compatibility and to find out why Chrysler's merger with Daimler-Benz failed, whereas the fusion of Fiat-Chrysler was successful.

As a result of the analysis, several major differences between Fiat and Daimler-Benz were revealed. The overall compatibility of Fiat in respect with Daimler-Benz was superior. The cultural differences between Daimler-Benz and Chrysler constituted an insurmountable hurdle for a successful merger. The counter measurements in the post-merger plan were too ineffective in order to overcome with the cultural issues.

The model has stressed out the importance of a cultural due diligence. Being aware of corporate cultural issues is the first important step in order to address them in an adequate way.

Daimler-Benz focused on the exploration of synergies and was compatible with Chrysler from a strategic point of view. However, the management failed in integrating the very differing corporate cultures. On the other hand, Fiat has shown uncompromised commitment. It was disposed to adjust itself in order to harmonize with the new partner. The result was that Fiat and Chrysler unlocked most of the synergies.

As a conclusion of this thesis, it can be said that for the analysis of a general compatibility of two potential merging candidates, the valuation model is recommended. However, the precise assessment of the compatibility in respect to operational, legal, and administrative issues has to be subject of studies or due diligence with a higher level of specificity.

References

ACEA. (2013). Consolidated Registrations - By Country 2013.

Ansoff, H. (1988). *Corporate Strategy*. London: Penguin Books.

Azizi, A., & Modares, A. (2002). Activity based costing, *Working pa*(Auditing organization).

Balcet, G., Commisso, G., & Calabrese, G. (2013). Structuring and Restructuring Fiat-Chrysler: Can Two Weak Carmakers Jointly Survive In The New Automotive Arena? *International Journal of Automotive Technology and Management*, *13*(2), 183–197. http://doi.org/10.1504/IJATM.2013.052995

Bausch, A. (2003). *Unternehmungszusammenschlüsse: Strategien und Strukturen für kooperatives und akquisitorisches Wachstum in Industrieunternehmungen*. Wiesbaden: Deutscher Universitäts-Verlag/GWV Fachverlage GmbH.

BBC NEWS. (2006). Fiat profits signal auto recovery. Retrieved from http://news.bbc.co.uk/go/pr/fr/-/2/hi/business/4970066.stm

Begley, J., & Donnelly, T. (2011). The DaimlerChrysler Mitsubishi merger : a study in failure. *International Journal of Automotive Technology and Management*, *11*(1), 36–48. http://doi.org/10.1504/IJATM.2011.038120

Berlitz. (2010). Cultural Orientations Indicator.

Berta, G. (2006). *La Fiat dopo la Fiat*.

Bertoldi, B., Giachino, C., Bernard, S., & Prudenza, V. (2015). Fiat-Chrysler deal: looking for a good returns from M&A. *Journal of Business Strategy*, *36*(4), 23–33. http://doi.org/10.1108/JBS-02-2014-0015

Bierich, M. (1988). *Der wirtschaftliche Erfolg von Auslandsgesellschaften. In Unternehmungserfolg: Planung, Ermittlung, Kontrolle*. Wiesbaden: Gabler.

Blaško, M., Netter, J. M., & Sinkey, J. F. (2000). Value creation and challenges of an international transaction The DaimlerChrysler merger. *International Review of Financial Analysis*, *9*(1), 77–102. http://doi.org/10.1016/S1057-5219(99)00020-4

Bunkley. (2011). 2 Years After Bankruptcy, Chrysler Posts a Profit. *New York Times*.

Camara, D. De, & Renjen, P. (2004). The secrets of successful mergers: dispatches from the front lines. *Journal of Business Strategy*, *25*(3), 10–14. http://doi.org/10.1108/02756660410536955

Caputo, A. (2015). Fiat and Chrysler, negotiating for survival. *Strategic Direction*, *31*(1), 27. http://doi.org/10.1108/SD-11-2014-0159

Chrysler Corporation. (1998). Annual Report 1997.

Corsi, D. M. (2002). La crisi della Fiat e le risposte possibili. *Ecn.org*.

Cullino, R., & Fabrizi, C. (2005). Tra crisi FIAT e mercati mondiali. Note sulla recente evoluzione del polo automotive torinese. (Between the FIAT Crisis and World Markets: On Recent Developments of Turin Automotive Industry. With English summary.). *L'Industria, Nuova Serie*, *26*(3), 519–552. http://doi.org/10.1430/20329

Daimler-Benz. (1994). *Daimler-Benz Annual Report 1993* (Vol. 1).

Daimler-Benz. (1995). *Daimler-Benz Annual Report 1994* (Vol. 1).

Daimler-Benz. (1996). *Daimler-Benz Annual Report 1995* (Vol. 53).

Daimler-Benz. (1997). *Daimler-Benz Annual Report 1996* (Vol. 53).

Daimler-Benz. (1998). *Daimler-Benz Annual Report 1997* (Vol. 53).

DaimlerChrysler. (1998). *DaimlerChrysler Prospectus*.

DaimlerChrysler. (1999). DaimlerChrysler Annual Report 1998.

DaimlerChrysler. (2000). *DaimlerChrysler Annual Report 1999*.

DaimlerChrysler. (2002). DaimlerChrysler Annual Report 2001.

DaimlerChrysler. (2007). DaimlerChrysler Annual Report 2006.

DePamphilis, D. M. (2014). *Mergers, Acquisitions, And Other Restructuring Activities*.

Eisenhardt, K. M. (1989). Agency Theory : An Assessment and Review Linked references are available on JSTOR for this article : Agency Theory : An Assessment and Review, *14*(1), 57–74.

FCA. (2015). Fiat Annual Report 2014. *FCA Annual Report*, 303. Retrieved from http://www.americanautocouncil.org/sites/default/files/2015-AAPC-Economic-Contribution-Report(FINAL).pdf

Fiat. (2005a). Fiat Annual Report 2004, 341 pages.

Fiat. (2005b). Il Gruppo Fiat e il Piano di Sviluppo di Fiat Auto.

Fiat. (2006). Fiat Annual Report 2005, 341 pages.

Fiat. (2007). Fiat Annual Report 2006.

Fiat. (2008). Fiat Annual Report 2007.

Fiat. (2009). Fiat Annual Report 2008, (December).

Fiat. (2012). Fiat Annual Report 2011.

Fiat. (2014). Fiat Annual Report 2013, (June).

Finkelstein, S. (2002). The DaimlerChrysler Merger. *Tuck School of Business at Dartmouth*, (1-0071), 1–8. Retrieved from http://mba.tuck.dartmouth.edu/pdf/2002-1-0071.pdf

Forbes. (2009). America's Largest Private Companies.

Gerpott, T. J. (1993). *Integrationsgestaltung und Erfolg von Unternehmensakquisitionen*. Stuttgart: Schäffer-Pöschel.

Gümüs, S., & Apak, S. (2011). Strategies of international growth in enterprises and strategic alliances. *Procedia - Social and Behavioral Sciences*, *24*, 737–744. http://doi.org/10.1016/j.sbspro.2011.09.026

Handelsblatt. (2007). Chronik der Entwicklung bei Chrysler, 2002–2003.

Hedderich, N. (2010). German-American Inter-Cultural Differences at the Workplace : A Survey, *2*(1997).

Hofstede, G. (2011). Dimensionalizing Cultures : The Hofstede Model in Context. *Online Readings in Psychology and Culture*, *2*(1), 1–26. http://doi.org/http://dx.doi.org/10.9707/2307-0919.1014

Hurter, F. Von. (2011). Herausforderungen und Erfolgsfaktoren der PMI in der Praxis.

Jansen, S. (2003). *Mergers & Acquisitions – Unternehmensakquisitionen und – Kooperationen eine strategische, organisatorische und kapitalmarkttheoretische Einführung*. Wiesbaden: Verlag Dr. Th. Gabler.

Johnson, G., Scholes, K., & Whittington, R. (2008). *Exploring Corporate Strategy*.

Kavanagh, C. (2008). Managing and Governing In a Hybrid German-American Corporation: The Case Of The DaimlerChrysler AG.

Kengelbach, J., Utzerath, D., Kaserer, C., & Schatt, S. (2013). Divide and Conquer: How Successful M&A Deals Split the Synergies, 1–18.

Khanna, P. (2013). Business Valuation / Mergers & Acquisition / Post Merger Integration, (June), 63. Retrieved from http://www.uni-stuttgart.de/infotech/pdf/bma13/BMA13_Mergers.pdf

Kruger, A. B., & Goolsbee, A. D. (2015). A Retrospective Look at Rescuing and Restructuring General Motors and Chrysler. *Economic Perspectives*. Retrieved from http://econperspectives.blogspot.ca/2008/09/importance-of-low-unemployment.html

March, J. G., & Simon, H. A. (1958). *Organizations*. New York: John Wiley & Sons.

McNish, R. S., Sias, D. L., & Christofferson, S. (2004). Where Mergers Go Wrong. *The McKinsey Quarterly*, (2), 92–99.

Medcof, J. W. (1997). Why too many alliances end in divorce.

Merger Agreement Signed: Daimler-Benz and Chrysler Combine to Form the Leading Global Automotive Company. (1998). Retrieved from http://www.prnewswire.com/news-releases/merger-agreement-signed-daimler-benz-and-chrysler-combine-to-form-the-leading-global-automotive-company-77801097.html

Mitsubishi Motors Corporation. (2004). Mitsubishi Motors Corporation Annual Report 2004.

Mukherjee, T. K., Kiymaz, H., & Baker, H. K. (2004). Merger Motives and Target Valuation: A Survey of Evidence from CFOs. *Journal of Applied Finance*, *14*(2), 7–24. http://doi.org/10.1038/nrmicro1265

Nesshöfer, C., & Herz, C. (2007). Neun verflixte Jahre, 1–6.

OICA. (2016). World Motor Vehicle Sales 2005-2015. *International Organization of Motor Vehicle Manufacturers*, 1–2. Retrieved from http://www.oica.net/category/sales-statistics/

Pfeffer, J., & Salancik, G. R. (1978). *The External Control of Organizations: A Resource Dependence Perspective*. New York: Harper & Row.

Porter, M. E. (1985). *Competitive Advantage: Creating and Sustaining Superior Performance*. New York: Free Press.

Reddy, K. S. (2015). Extant Reviews on Entry-mode/Internationalization, Mergers & Acquisitions, and Diversification: Understanding Theories and Establishing Interdisciplinary Research. *Pacific Science Review*, *16*(June), 1–25. http://doi.org/10.1016/j.pscr.2015.04.003

Reuters. (2014). Fiat Gains Full Control Of Chrysler In $ 4.35 Billion Deal, 9–11.

Riley, G. (2016). Why do businesses grow?, 1–6.

Rührig, D. (2009). „Integrationsprobleme bei internationalen Unternehmenszusammenschlüssen“.

Schmidt, P. (2004). Non-conventional Truths about American-German Business, (June).

Schmitz, B. J., & Butera, H. (n.d.). Cultural Orientations Indicator : Technical Manual Summary.

Scott, R. E. When Giants Fall: Shutdown of One or More U.S. Automakers Could Eliminate up to 3.3 Million U.S. Jobs (2008).

Shelton, L. M. (1988). *Strategic business fits and corporate acquisition: Empirical evidence*.

Standard & Poors Stock Reports. (1997). *Daimler-Benz AG*. New York.

Sudarsanam, S. (2010). Creating Value from Mergers and Acquisitions: The Challenges, 786. Retrieved from http://books.google.co.uk/books/about/Creating_Value_from_Mergers_and_Acquisit.html?id=3H1OPgAACAAJ&pgis=1

Trautwein, F. (1990). Merger motives and merger prescriptions. *Strategic Management Journal*.

Vedele, S. (2013). Mergers & Acquisitions – Case Study.

Vlasic, Bill, & Stertz, B. (2001). Taken for a Ride: How Daimler-Benz Drove off with Chrysler.

Vlasic, B., & Bunkley, N. (2010). Chrysler Falls Behind as G.M. and Ford Recover. *New York Times*.

Volpato, G. (2005). *Fiat Auto Crisi e riorganizzazioni strategiche di un'impresa simbolo*.

Weston, J. F., Chung, K. S., & Siu, J. A. (1997). Takeovers, restructuring, and corporate governance, (Upper Sadle River).

Whitaker, S. C. (2013). *Merger & Acquisition*. *Journal of Chemical Information and Modeling* (Vol. 53). http://doi.org/10.1017/CBO9781107415324.004

Williamson, O. E. (1986). The Economics of Organization: The Transaction Cost Approach. Williamson.

Zandi, M. (2008). The State of the Domestic Auto Industry: Part II. *Testimony before the U.S. Senate Banking Committee*.

Zotti. (2016). Types of takeovers, 1–18, Univesity of Padua, M&A Course Material.