

Managing Business Change

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## Chrysler Turnaround: Will it work?

Chrysler has faced highs and lows over the last three decades. In 1998 it merged with Daimler-Benz, and then in 2007 was acquired by Cerberus Capital Management. With sales plummeting, an economy in a tailspin and a product line of gas guzzlers that no one wanted, Chrysler filed for bankruptcy protection on April 30, 2009. When it emerged from bankruptcy in June 2009, Fiat took a twenty percent stake in the company. It was a move that would avoid liquidation of its assets and give Chrysler one last chance.

Sergio Marchionne became CEO of Chrysler in addition to his role of CEO at Fiat. His record was impressive. Taking the reins of an ailing Fiat in 2004, he turned the company around in less than three years.

The question we have is can he help Chrysler make it through the next two years?

In June 2009, Marchionne could waste no time. Chrysler was burning through its limited cash, would unlikely receive any cash infusion from Fiat, would have no new products until mid 2010, and had just jettisoned 789 dealerships.

Five months after the takeover, in September 2009, he was interviewed at the Frankfurt Auto Show and asked about the progress of his post-merger plan. He acknowledged that restructuring Chrysler had been more difficult than anticipated. "We were surprised by how little had been done in the past 24 months ... It will be slow progress in the beginning but we will see significant improvement in 2010." (Soyoung Kim, Reuters, 9/16/2009).

While the progress might have seemed slow to Marchionne, the changes were pervasive. An in-house article obtained by Automotive News (September 14, 2009) declared in its headline "We Have To Do Business Different." It described the changes in dealer advertisements that would be necessary for Chrysler to create better brand awareness. In another article, Barkolz and Sherefin (Automotive News, September 17, 2009) described a visit by Fiat Group manufacturing chief, Stefan Ketter, who was working on improving quality and efficiency standards. And during that interview it became clear that Fiat was exporting their manufacturing system from Italy to the United States. Ketter was there to learn first-hand how the implementation was progressing.

### Is Process change sufficient?

While it is certainly risky to speculate on post-merger progress with such little information, what the evidence does seem to suggest is that the focus of the turnaround plan is on technology, methods and procedures. It includes new information systems as well as new manufacturing and marketing procedures. One can also speculate that the human side of the business is also being addressed, but Marchionne's record at Fiat suggests that technology, methods and procedures are first.

The big challenge is that introducing new technology, methods and procedures is not sufficient for sustained business improvement. For example, studies have shown that about 25 percent of IT projects are never completed or never used. And what about Management by Objectives (MBO), Total Quality Management (TQM), Business Process Reengineering (BPR) and Just In Time (JIT). Some do succeed, yet a few years after they become popular many are viewed as historical fads.

### Why do these changes fail?

Transformations often fail because the culture of the organization cannot accommodate the intent of these changes. So what needs to be done at the same time the technology, methods and procedures are changed is that the culture also needs to be addressed. However, it is much more complex and time consuming to address culture. Fixing an information system or a quality control process is sometimes straightforward and sometimes complex, yet fixing the culture not only takes time but requires unique skills.

Organizations find that bringing people together in a collaborative environment while at the same time focusing intently on improved performance is a tough goal.

### Will Chrysler succeed?

Marchionne inherited an organization characterized by bureaucratic processes, encumbered by union rules, dominated by internally focused managers, and an organization that failed to produce the cars that buyers want. He also inherited an organization that had been dragged through a failed merger and a failed acquisition. The risk is that the organization may change its processes but that old habits will return unless a holistic view of the challenge is accepted and both the hard and soft side of the organization is addressed. Does Chrysler have the time, money and inclination to take a holistic approach and thereby ensure that the changes will be sustainable? Time will tell.

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"Off to a fast start but will the changes be sustainable?"

"Is the soft side being neglected?"