Successful Turnaround at the Chrysler Group

Dieter Zetsche und Péter Horváth

Dr. Dieter Zetsche is President and Chief Executive Officer at DaimlerChrysler Corporation, Auburn Hills, Michigan, USA and Member of Board of Management at DaimlerChrysler AG, Stuttgart, Germany.

Based in Auburn Hills, Michigan, the Chrysler Group is one of five divisions of DaimlerChrysler AG, which formed by the merger between the former Daimler-Benz and the Chrysler Corporation in 1998. Within the total business portfolio of DaimlerChrysler AG, the Chrysler Group represents approximately 40% of the total revenue or $60.1 billion USD in 2002. Chrysler Group revenue is generated mainly through the sale of passenger cars and light trucks. This amounts to 2.82 million vehicles sold in 2002, or 62% of the total sales volume of DaimlerChrysler, including commercial vehicles (4.54 million). Employment at the Chrysler Group at year end was 95,835 employees, which represents 26% of the total DaimlerChrysler workforce (365,571).

Péter Horváth: Dr. Zetsche, congratulations on Chrysler Group’s return to profitability in 2002. In light of increasing competition and the declining economic environment in the United States, this is a remarkable achievement. Can you briefly discuss what you feel the Chrysler Group must do in order to sustain and further grow its profitability in the upcoming years?

Dieter Zetsche: This is a broad question. Let me try to describe in a nutshell the challenges we are facing on the U.S. automotive market and how we will address them. One of the greatest challenges in the U.S. automotive market is the high levels of competitive pressure, especially from import brands, in market segments which have been historically strong for the U.S. OEMs. To defend against share erosion, our U.S. competitors have engaged in price discounts and incentives which drive marketing costs higher. Price discounting as a stimulus for sales is a result of the imbalance between supply and demand and a lack of product differentiation. I believe this is turning the car market into a commodity business, destroying the value of OEM brands.

Our strategy is to offer a portfolio of innovative products that are uniquely styled and packaged, while achieving benchmark levels of productivity and quality performance. We’ve described this approach to doing business as delivering “disciplined pizzazz.”

Péter Horváth: What role did the balanced scorecard play in your turnaround efforts?

Dieter Zetsche: Faced with significant challenges in 2000, the Chrysler Group Executive Committee introduced the balanced scorecard to describe the strategic goals and key performance measures for the overall company. The balanced scorecard provided a tool to ensure that everyone in the company understood and could align their individual and departmental targets to the overall company targets. The intent of the balanced scorecard is to communicate to the organization a common set of results that we are collectively seeking to deliver as an organization.

Most importantly, the measurement of the shorter-term turnaround objectives provided focus on what was necessary to achieve the turnaround. Specifically, we drove focus by measuring progress...
towards very aggressive targets for Material Cost, Fixed Cost, Plant Cost, and Product Program Spending reductions.

Péter Horváth: How did you create management accountability for those aggressive turnaround targets?

Dieter Zetsche: All of our Executives were assigned responsibility for each of these targets, and signed agreements to deliver on these targets. These signed agreements were prominently displayed in our executive suites to serve as a constant reminder to the commitments that were made. You can see the impact that the scorecard has had in terms of how quickly the Chrysler Group has returned to profitability.

Péter Horváth: And then, how did you achieve alignment of the different organizations and management levels with the balanced scorecard targets?

Dieter Zetsche: We obtain the commitment of various levels of management through the implementation of our performance management processes, within which all employees develop target agreements in alignment with the Chrysler Group balanced scorecard. The corporate goals and targets are communicated to each of the various functions and departments, which in turn align their departmentfunctional goals with the scorecard targets that pertain to their individual function. Goal agreements are established at all levels of the organization. These goal agreements, are the fundamental basis for the measurement and evaluation of employee performance.

Péter Horváth: You linked the balanced scorecard with your corporate governance system. How important is that alignment to the success of a scorecard initiative?

Dieter Zetsche: One of the things that makes the Chrysler Group balanced scorecard an effective management tool is the fact that issues raised during regular scorecard performance reviews (which occur on a monthly basis at the Executive Committee) are translated into tangible actions for those executives responsible for specific scorecard metrics. The discipline and focus which results from this linkage to our governance system is invaluable. It comes back to the old, but true saying: „What gets measured gets done.“ I tell you, it is amazing to see that once you set targets and measure progress, how far you can stretch the organization to achieve a new level of performance.

Péter Horváth: What are the future key challenges for Chrysler?

Dieter Zetsche: We will focus on brand-relevant product innovation valued by our customers. This is essential in order to create demand in the marketplace. We must do this while achieving benchmark levels of cost, productivity and quality performance.

We need to meet or exceed the best in the industry if we are to be successful. We have made great strides as part of the turnaround in improving our cost structure, and we must remain vigilant on these fronts.

We must be sensitive to another important constituent that we have: our shareholders. Increasing shareholder value is the ultimate objective of a publicly traded business. Offering a broad range of appealing products to our customers is one key to improving shareholder value. Controlling costs is another. And optimizing the use of our assets will generate further shareholder benefits. The name of the game in our industry is to do more with less. So, the key success factor is that once you set the targets you have to ensure disciplined execution of the plan which delivers these targets. The balanced scorecard is a vital component of the systems and processes in place at Chrysler Group which ensure the continued successful implementation of our strategy.

Péter Horváth: Thanks a lot for the interview!