The influence of national and company culture on cross-border Mergers & Acquisitions - and the application of cultural integration -

Bachelor Thesis: Organisation & Strategy

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Academic year: 2009-2010
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Date: 11 June 2010

Word count: 6,206 words
(excluding, Title page, Table of Contents, and References)
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1. Introduction

1.1 Problem Indication

In today’s global economy, whereby corporations are constantly looking for economies of scale, synergies, advantages in taxation, and knowledge, mergers and acquisitions (M&A) play an important role. To illustrate, the global value of net cross-border mergers and acquisitions was $673.213 million in 2008, equivalent to 39.66% as a share of global inward foreign direct investment flows (UNCTAD, 2009).

This percentage was even higher in the preceding years but due to the economic downturn, as a result of the financial crisis in 2008, the number and value of M&As has decreased. In the first quarter of 2010, however, the M&A market has recovered. The value of announced M&As increased with 20.5%, compared to the first quarter of 2009, to $573.3bn and the number of deals increased by 4% (Thomson Reuters, 2010).

Table 1 illustrates the significance of cross-border M&As in FDI flows in the period 1987-2001.

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<tr>
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<tbody>
<tr>
<td>World</td>
<td>66.29</td>
<td>44.75</td>
<td>60.18</td>
<td>76.23</td>
</tr>
<tr>
<td>Developed countries</td>
<td>77.49</td>
<td>64.93</td>
<td>85.39</td>
<td>88.96</td>
</tr>
<tr>
<td>Developing countries and transition economies</td>
<td>21.94</td>
<td>15.49</td>
<td>25.79</td>
<td>35.74</td>
</tr>
</tbody>
</table>

Source: Barba-Navaretti et al. (2004, p.10)

The 251 cross-border M&A deals in 2008 valued at over $1 billion (UNCTAD, 2009) show that there are many corporations engaging in high-value deals. There are, however, many companies which face difficulties and problems in the merger and acquisitions process. In a Mercer (2008) study, for example among 119 organizations which engaged in M&As, 44% of the American respondents stated that between $1 and $5 million was lost or not realized in the M&A they had undertaken; in Europe, this percentage was 43% with the figure in Euros. This bachelor thesis will focus on social problems that arise, and in particular those related to national cultural and company cultural differences.

For example, the integration of the American Lehman Brothers’ international operations into the acquiring Japanese Nomura in 2009 has been particularly difficult. There were many differences in work culture, business etiquettes and general culture between the two organizations which caused tensions and uncertainty in the organizations. Concretely, employees of the acquired Lehman Brothers were uncertain about their compensation, and they disagreed with the work culture of Nomura. As a result, in Europe, over 100 employees left Lehman of their own accord in a period of four months (Tudor, 2009).
A lot of research has been conducted whether mergers and acquisitions are successful. It is generally accepted that the performance of M&As is below expectation. A research by Accenture (2006) among 420 senior executives from German, Swedish, Norwegian, Finnish, British, and American corporations showed that only 50% of executives “agreed their company had achieved the expected revenue synergies, and only 45% believed the expected cost synergies had been captured”. According to Cartwright and Schoenberg (2006) “the failure rates of mergers and acquisitions have remained consistently high”.

In the existing literature a wide range of views exist as to the factors why M&As fail. However, many researchers agree that the key factor of M&A failure is cultural integration. Weber (1996) and Very et al. (1997) (as cited in Lodorfos & Boateng, 2006) “identified the process of “socio-cultural integration” as a key factor in the poor performance of M&A”. Also, Zhu and Huang (2007) argue that “whether the cultural integration is successful or not is critical to success or failure of a cross-border M&A”. Therefore, this paper will research the impact of cultural difference on cross-border M&A success, and how cultural integration can be applied to contribute to a successful M&A process.

1.2 Problem Statement

The following problem statement is going to be the foundation of this bachelor thesis: “What effect do national and company culture have on the cross-border merger and acquisition process, and how can cultural integration be applied to facilitate a successful cross-border merger and acquisition.”
1.3 Research Questions

The answers to the following research questions should provide the main theoretical basis to answer the problem statement:

- What is a cross-border merger & acquisition, and what are the motives for corporations to engage in M&As?
- How can differences in national culture and organizational culture between two organizations cause problems in a cross-border M&A?
- How can cultural integration be applied to contribute to a successful cross-border M&A?

The paper will proceed as follows: first the concept of cross-border merger and acquisition will be explained. This will be followed by a detailed explanation of the concepts of national and company culture, and what problems they cause in the cross-border M&A process. The third part will discuss how cultural integration is crucial for a successful cross-border M&A.

1.4 Relevance

From an academic perspective, the literature on cross-border M&A is still in its infancy (Nocke & Yeaple, 2007; Bertrand & Zuniga, 2006). The objective of this research is to provide a clear and comprehensive overview what cross-border M&As are, and of the problems that corporations face in the M&A process as a result of national culture and company culture differences, and to provide possible solutions.

As far as managerial relevance is concerned, as described in the first part of the introduction, M&As constitute an important part of foreign direct investment. To make a cross-border M&As a success, it is crucial to successfully apply cultural integration (Zhu & Huang, 2007), and therefore it is important to provide a coherent paper on how to apply cultural integration.

1.5 Research Design and Data Collection

The research will be descriptive research paper, based on a literature review. The information presented in the paper will rely on existing knowledge which originates from respected academic journal articles, books, and data originating from reliable and qualified organizations.

Specifically, Google Scholar, the library of Tilburg University, and the Online Library Database of Tilburg University, including ABI/Inform Global, LexisNexis Academic, and ScienceDirect, will be used to acquire the necessary information and journal articles.
2. Cross-border Mergers & Acquisitions

2.1 Introduction
To understand how cultural differences can affect cross-border merger and acquisition success, it is necessary first to define cross-border M&A itself. Therefore, in this section the concept of M&A will be explained, as well as the motives for M&A and specific motives for cross-border M&A. This chapter will answer the following research questions: “What is a cross-border merger & acquisition, and what are the motives for corporations to engage in M&As?”

2.2 Definition of Cross-border Mergers and Acquisitions
According to Zhang and Wang (2004), ‘cross-border mergers and acquisitions’ can be defined as “an activity in which an enterprise from one country buys the whole asset or controlling percentage of an enterprise in another country” (as cited in Zhu & Huang, 2007). Child et al. (2001) broaden this definition by arguing that M&As of companies with their headquarters in the same country also face cross-border issues, as they have to integrate operations in different countries.

Although in literature the terms ‘mergers’ and ‘acquisitions’ are mentioned interchangeably, there is a distinction to be made about the two terms. In general, a ‘cross-border acquisition’ can be described as an activity in which a bigger foreign corporation purchases or takes a controlling interest in a local corporation. The acquired company ceases to exist as an independent corporation and is integrated into the acquiring corporation as a subsidiary (DePamphilis, 2001; Koen, 2005). DePamphilis (2001, p. 18) defines a ‘merger’ as “a combination of two or more firms in which all but one legally cease to exist, and the combined organization continues under the original name of the surviving firm.” In a ‘cross-border merger’ two companies from different countries and roughly the same size consolidate into one economic and legal entity, and the two firms continue to operate as ‘one’.

Another combination of terms which is used interchangeably and is relevant in this context are the terms ‘mergers’ and ‘consolidations’. A consolidation “involves two or more companies joining to form a new company”, and is technically not recognized as a merger because both the acquired corporation and the acquiring company survive, whereas in a merger one ceases to exist (DePamphilis, 2001, p. 18).

This bachelor thesis will follow the mainstream notion in academic literature to use the terms ‘mergers’ and ‘acquisitions’ as well as the terms ‘mergers’ and ‘consolidations’ interchangeably.
## 2.3 Motives for M&A

First, the paper will cover reasons for general M&As, and then motives that specifically hold for cross-border M&As will be discussed.

Both academic literature and empirical studies have researched and provided many reasons for firms to engage in M&As. In the academic literature several scientists have attempted to group possible motives for firms to engage in M&As, but there is no general consensus or standardized systematization (Wübben, 2007).

Based on Neary’s (2007) and Wübben’s (2007) work, this paper has distinguished two main, covering categories of M&A motives. First, M&A motives based on the ‘neoclassical profit maximization theory’, which includes Neary’s ‘efficiency motive’ and ‘strategic motive’, and Wübben’s ‘shareholder value related motives’. The second categorisation is based on the ‘principal-agent theory’, which compromises Wübben’s ‘management related motives’ (See figure 1). This two-way categorization is also adopted in Firth’s (1980) paper in which he proposes the ‘neoclassical profit maximization theory’ and ‘maximizing management utility’ as the two theories which explain why corporations engage in M&As.

### 2.3.1 Categorization of M&A motives

First, the paper will continue with an explanation of the ‘Neoclassical profit maximization theory’ in relation to M&A motives. Also, an explanation of and an argumentation as to why the ‘efficiency motive’ and ‘strategic motive’, and Wübben’s ‘shareholder value related motives’ have been categorised into this particular category will be provided. The ‘Principal-agent theory’ and ‘management related motives’ will be approached in a similar manner.
‘Neoclassical profit maximization theory’

According to Firth (1980, p. 235) the ‘neoclassical profit maximization theory’ “holds that competitive market forces motivate firms to maximize shareholder wealth”. Therefore, firms will engage only in M&As when it will increase shareholder wealth. This can happen for example through increased profitability as a result of market power or synergies such as economies of scale or scope. The theory holds that M&As are driven by rational motives to maximize economic benefits. Therefore, in the ‘neoclassical profit maximization theory’ motives are driven by shareholder interest, and decision-making takes a shareholder perspective.


Wübben describes ‘shareholder value related motives’ as those M&A motives with the goal of maximizing shareholder value. Therefore, it takes a shareholder perspective.

With regards to Neary’s efficiency motive’ and ‘strategic motive’ a similarity with Wübben’s ‘shareholder value related motives’ can be noticed. According to Neary (2007, p.1230), efficiency gains can result from multiple sources “such as cost savings via internal technology transfer, economies in the use of firm-specific assets, managerial synergies, or the integration of pricing and marketing decisions on differentiated products.” Strategic motives can be described as M&A activity which is undertaken by corporations to reduce competition, with, as a result, an increase in prices and profits.

Since Wübben’s ‘shareholder value related motives’ and Neary’s efficiency motive’ and ‘strategic motive’ all take the perspective of the shareholder and profit maximization centrally, these three categories of M&A motives can be classified under the header of the ‘neoclassical profit maximization theory’ in which the focus and interest is also on the maximization of shareholder value.

A motive which can be categorised into the ‘neoclassical profit maximization theory’ category, for example, is synergy, which Seth et al. (2000) describe as the value of the combined corporation being greater than the sum of the value of the two individual entities. This may arise, according to Wübben (2007, p. 21), “from economies of scale, production economies of scope, process improvements, transfer of know-how, or the utilization of growth potentials”.

In addition, Trautwein (1990) brings forward that corporations engage in shareholder wealth creation M&As to attain market power in which the company can control the price or because managers have insider information which shows that the target firm is undervalued. Lastly, Wübben (2007) argues that firms engage in M&As to diversify their portfolio in order to reduce risk or because of the believe that the target firm does not optimally use its resources because of inefficient management.
In all cases, engaging in M&As will increase the shareholder wealth of the acquiring corporation as a result of lower costs or increased revenues.

*Principal-agent theory*

The ‘principal-agent theory’, also simply known as the ‘agency theory’, is defined by Jensen & Meckling (1976, p. 308) “as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent.”

In the case of multinational corporations, managers often own only a very small percentage of the shares outstanding. Therefore, the manager (agent) acts on behalf of the company’s shareholders (principal) (Douma & Schreuder, 2008), and interest is therefore in the motives and decision-making of managers. As a result, conflicts of interest can arise between the agent and the principal, in which the agent acts irrationally from the perspective of the principal, but rational in his own perspective. Relating this to motives for corporations to engage in M&As, Seth et al. (2000, p. 388) suggest “that managers embark on acquisitions to maximize their own utility at the expense of the shareholders of the firm.”

With the this explanation in mind, and the definition of Wübben’s (2007, p. 19) ‘management related motives’ to be those M&A motives which can be “attributed to management either rationally maximizing its own benefits or acting irrationally”, Wübben’s ‘management related motives’ can be categorized into the ‘principal-agent theory’. This classification takes, just like the ‘principal-agent theory’, the motives and the perspective of the acquiring management centrally.

Ahammed & Glaister (2010) and Wübben (2007) put forward empire building, power, prestige, career opportunities and management compensation as reasons as to why managers sometimes engage in economically irrational M&As. Managers might receive a higher compensation as the size of the company increases, or have easier access to senior positions if they operate a larger company. This provides an incentive for them to engage in M&As which might be at the expense of the shareholder.

### 2.3.2 Empirical findings on M&A motives

Mukherjee et al. (2004) conducted an empirical study to identify the motives for M&As, by performing a survey among 75 CFOs of corporations which engaged in M&A activity between 1990-2001. Table 2, which is based on the survey results of Mukherjee et al. (2004), summarizes the motives for the questioned CFOs to engage in M&As. The CFOs indicated the achievement of synergies as the main motive for M&As, which is defined by Sirower (1997, p.20) as an “increase in performance of the combined firm over what the two firms are already expected or required to
accomplish as independent firms”. Amongst others, Ahammad & Glaister (2010) Cartwright & Cooper (1993), and Hopkins (1999, 2008) support in their papers the notion that the achievement of synergeries is the main motivation for M&As.

Table 2: Motives for M&As

<table>
<thead>
<tr>
<th>Motives</th>
<th>N</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Take advantage of synergy</td>
<td>28</td>
<td>37.3</td>
</tr>
<tr>
<td>Diversification</td>
<td>22</td>
<td>29.3</td>
</tr>
<tr>
<td>Achieve a specific organizational form as part of an ongoing restructuring program</td>
<td>8</td>
<td>10.7</td>
</tr>
<tr>
<td>Acquire a company below its replacement cost</td>
<td>6</td>
<td>8.0</td>
</tr>
<tr>
<td>Use excess free cash</td>
<td>4</td>
<td>5.3</td>
</tr>
<tr>
<td>Reduce tax on the combined company due to tax losses of the acquired company</td>
<td>2</td>
<td>2.7</td>
</tr>
<tr>
<td>Realize gains from breakup value of the acquired firm</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Other</td>
<td>5</td>
<td>6.7</td>
</tr>
<tr>
<td>Totals</td>
<td>75</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Mukherjee et al. (2004, p. 8)

In the same survey, the sources of synergy were researched among the 69 respondents who were directly or indirectly involved in synergy-related mergers (Mukherjee et al., 2004). Economies of scale that cut the costs and/or that increase productivity are the most significant source of synergy.

Table 3: Sources of synergy

<table>
<thead>
<tr>
<th>Sources</th>
<th>N</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating economies (because of greater economies of scale)</td>
<td>62</td>
<td>89.9</td>
</tr>
<tr>
<td>Financial economies (due to lower transaction costs and tax gains)</td>
<td>4</td>
<td>5.8</td>
</tr>
<tr>
<td>Increased market power (resulting from lower competition)</td>
<td>3</td>
<td>4.3</td>
</tr>
<tr>
<td>Differential efficiency (due to the acquiring firm’s management being more efficient)</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Totals</td>
<td>69</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Mukherjee et al. (2004, p. 8)

2.4 Motives for cross-border M&As

The motives mentioned above hold for both cross-border M&As and general M&As. However, scholars have also identified motives which hold more specifically for cross-border M&As. Amongst others, Mangold and Lippok (2008), Madura (2009), and Ahammad & Glaister (2010) have provided motives which explain why corporations are motivated to engage in international expansion.

‘Product cycle theory’

The ‘product cycle theory’ holds that a corporation will first establish itself in its home country, because of some advantage it has over its competitors and the easier accessibility to information
about the home market and competitors. According to Madura (2009, p. 7), as the market and the firm matures, “it may recognize additional opportunities outside its home country”. Therefore, a firm will expand internationally to retain and enhance its position over competitors and to exploit opportunities in foreign markets.

Cross-border M&As allow for faster entry into a foreign market according to Ahammad & Glaister (2010) and Hitt et al. (2001). Corporations which engage in cross-border M&As will have instant access to local suppliers, distribution channels, and the local market. It is more time consuming for a corporation to build up an organization from scratch in a foreign country, because the business has to be set up (e.g. build a plant), and differences in business practices and cultures will be encountered. Therefore, a M&A allows for a faster penetration of the market. Related to this is a motive brought forward by Weston et al. (2004, as cited in Mangold & Lippok, 2008, p. 8): “following clients abroad in order to continue and expand the business relationship”.

‘Theory of comparative advantage’
According to Krugman & Obstfeld (2006, p. 26) “a country has a comparative advantage in producing a good if the opportunity cost of producing that good in terms of other goods is lower in that country than it is in other countries”. Therefore, corporations in a country specialize in producing the good in which the country has a comparative advantage which results in production efficiency. According to Madura (2009, p. 6), “comparative advantages allow firms to penetrate foreign markets” as it stimulates trade between two countries.

‘Imperfect markets theory’
The ‘imperfect market theory’ argues that in the ‘real’ world factors of production, such as capital and labor, are not freely transferable across countries as there are costs associated with this. Moreover, there are sometimes restrictions on the transfer of the factors of production (Madura, 2009). Since countries differ in respect with the resources that are available (Mangold and Lippok, 2008), this provides motives for firms to expand internationally.

A motive which can be included in this category is provided by Ahammad & Glaister (2010, p. 4), who identify “access to and acquisition of new resources and technology” as a possible motive for cross-border M&As. Mangold & Lippok (2008) and Schuler & Jackson (2001) support this view by claiming that asset-seeking and the acquisition of technology and resources is increasingly important nowadays. Cross-border M&As can provide corporations with quick access to new technologies and knowledge, without having to develop them themselves from scratch.

Differences in economic and regulatory environment
Mangold & Lippok (2008) and UNCTAD (2000) have focused on the differences and changes in the regulatory and economic environment in the countries that the acquiring and acquired corporation operate in. UNCTAD (2000, p.182) views cross-border M&As as “strategic responses by companies in
order to defend and expand their competitive positions in a changing environment”. According to Madura (2006, as cited in Mangold & Lippok, 2008) a relatively low tax rate in the country where the target firm operates in, an appreciating exchange rate of the local currency compared to the home currency, and the potential for economic growth, positively influence the decision for a corporation to engage in cross-border M&A activity. UNCTAD (2000) also views the global deregulation and liberalisation in the recent past as an important contribution to the increase of cross-border M&As.
3. National & Organizational Culture

3.1 Introduction
Zhu and Huang (2007, p. 41) state that “cultural differences arising from cross-border M&A are not limited to those on the company level, but also on the national level.” Therefore, this section will research the concepts of ‘national culture’ and ‘organizational culture’, as well as the problems that these cause and the impact they have in the cross-border M&A process. Also, the relationship between national culture and corporate culture will be explored. Chapter three will answer the second research question: “How can differences in national culture and organizational culture between two organizations cause problems in a cross-border M&A?”

3.2 Culture and cultural distance
In the academic literature, the concept of ‘culture’, has been studied, debated, and examined a lot, and a variety of definitions is given depending on the focus of the study (e.g. sociology, psychology, organization theory, or anthropology). To illustrate this, Kroeber and Kluckhohn identified in 1952 already 164 different definitions for term ‘culture’.

According to Weber et al. (1996), most authors distinguish either between ‘national culture’ or ‘organizational culture’, and they state that scholars from one field refrain from stepping into the other field. This is supported by Teerinkangas & Very (2006, p. S35), who claim that culture, in relation to M&As, can be defined as “organizational and/or national culture”, of which ‘national culture’ is likely to be more important and to be deeper embedded in the minds of individuals than ‘organizational culture’.

According to Hofstede (1994, p. 10) “organizational cultures also reflect national culture differences”, and therefore it can be concluded that both concepts are related. Zhu and Huang (2007) support this by stating that ‘organization culture’ is influenced by the ‘national culture’, and that the two are interdependent.

In the literature, the term ‘corporate culture’ comes also forward. Hofstede et al. (1990), however, do not make a distinction between the terms ‘corporate culture’ and ‘organizational culture’ by using them interchangeably, and therefore this paper will also follow this notion.

One of the few scholars, according to Weber et al. (1996), who define culture with a reference to both ‘national’ and ‘organizational culture’ are Adler & Jelinek. They suggest that “culture, whether organizational or national, is frequently defined as a set of taken-for-granted assumptions, expectations, or rules for being in the world” and that “the culture concept emphasizes the shared cognitive approaches to reality that distinguish a given group from others” (Adler & Jelinek, 1986, p. 74).
However, most academics either define ‘national’ or ‘organizational culture’. One of the most influential and most cited scholars in the field of culture, Geert Hofstede (2001, p. 9) defined ‘national culture’ as “the collective programming of the mind that distinguishes the members of one group or category of people from another”. This includes, according to Hofstede, values, rituals, symbols and heroes. Also, it shapes individual’s attitudes toward “nature, rules, status and power, ideas of individual and group, time, the modes of communicating and thinking, and interpersonal relationships” (Zhu and Huang, 2007, p. 41). On the other hand, ‘organizational culture’ is described by Schein (1985) as the shared beliefs, values, and assumptions shared by the members of an organization (as cited in Teerinkangas & Very, 2006), and the way in which a group of people solves problems (Trompenaars, 1993). Business etiquettes, organization structures, management styles, and workers compensation, for example, belong to ‘organizational culture’. Differences in the ‘organizational culture’ can be noticed in the way they “operate, direct, communicate, and motivate” (Zhu and Huang, 2007, p. 42).

Ahmed et al. (1999) and Hofstede et al. (1990) claim that organizational culture is difficult to change, because the people who build up and work in the organization are reluctant to adapt to or accept a new culture. It is not a constant however, as Sadri & Lees (2001, p. 854) claim that corporate culture is “influenced heavily by factors such as the industry in which the company operates, its geographic location, events that have occurred during its history, the personalities of its employees, and their patterns of interaction”.

Relevant in this context is also the concept of ‘cultural distance’, which measures the extent to which a culture and its cultural norms differ from one country to another. (Shenkar, 2001; Kogut & Singh, 1988). Different languages and religion, and differences between countries in Hofstede’s (2001) five cultural dimensions of power distance, uncertainty avoidance, long term orientation, individualism versus collectivism, and femininity versus masculinity, create cultural distance. For example, the cultural distance between The Netherlands and Japan is much bigger than the cultural distance between The Netherlands and Germany, since the Dutch and German culture are more similar and related (e.g. share similar religion and comparable language) than the Dutch and Japanese culture (e.g. the Dutch have individualistic society with a small power distance, whereas the Japanese society is collectivistic with a large power distance).

### 3.3 Impact of culture on cross-border M&As

In a cross-border M&A, the ‘national culture’ and ‘organizational culture’ of the corporations involved come in contact with each other and a new culture has to be developed out of the two individual cultures.
According to a report of the consulting firm Mercer (2009, p. 2), 75% of the organizations in a M&A view “culture as a key component in creating deal value”. However, in the academic literature and empirical studies there is no consensus on the impact of culture on the performance and value of cross-border M&As.

Teerinkangas & Very (2006) state that a conclusion on the impact of organizational culture on M&As cannot be provided since the results of the impact on performance differ between negative and positive. Concerning national culture, they conclude that there is a positive relationship between cultural differences and the performance of cross-border M&A. Now the paper will continue with a closer look on the different views.

According to Sherman (2005) cultural differences between the organizations involved in the cross-border M&A often lead to decreased productivity, which results in lower revenues, and thus a lower value of the combined entity than expected. In an empirical study by Mercer (2008) among 119 European and American organizations involved in M&A transactions, more than half of the respondents “reported that the success of recent M&A transactions was negatively impacted by cultural integration issues”. 44% of the American respondents stated that between $1 and $5 million was lost or not realized in the M&A they had undertaken; in Europe, this percentage was 43% with the figure in Euros.

The acquisition of Lehman Brothers’ international operations by Nomura, and the merger of DaimlerBenz and Chrysler are two examples of cases in which there is a negative impact of both organizational and national culture on the performance of the cross-border M&A.

In the case of the acquisition in 2008 of Lehman’s international operations by Nomura, as a result of differences between the organizational and national cultures which caused conflicts and tensions, over 100 employees left Lehman in Europe. Moreover, Nomura’s labor costs doubled as a result of Lehman’s bonus culture and workers compensation, which was much higher than the one employed by Nomura (Tudor, 2009).

The DaimlerBenz and Chrysler merger illustrates how differences in organizational cultures, working practices, and resulting culture clashes can lead to the failure of a merger. Even though it was seen as a merger between two equal companies, DaimlerBenz imposed its own culture on Chrysler which resulted in resistance of the Chrysler management. Moreover, the focus of DaimlerBenz on quality and Chrysler’s focus on cost-efficiency resulted in culture clashes. These differences lead to minimal synergy effect, decreased profits for DaimlerBenz and Chrysler, and a reduced stock price (Koen 2005).
Contradictory to general expectations and the findings mentioned above, in a empirical study conducted by Morosini (1998) it was found that differences national culture in a cross-border M&A can enhance the performance of a corporation. This finding is supported by Chakrabarti et al. (2005), whose research of over 400 cross-border M&As in the period 1991-2000, shows that cross-border M&As perform better in the long run if the acquiring corporation and the target corporation come from countries that are more culturally distant. Moreover, Chakrabarti et al. (2005, p. 32) discovered that in the long run “friendly deals and cash acquisitions do better” and that “larger acquirers seem to outperform smaller acquirers”.

An explanation for this counterintuitive phenomenon, provided by Chakrabarti et al. (2005), could be that cross-border M&As between corporations from culturally distant countries provide the acquiring firm with higher synergies and organizational strengths. Furthermore, it is argued that in a cross-border M&A which involves a firm in a culturally distant country, the selection criteria are much higher, which results in better screening and contracts.
4. Cultural Integration

4.1 Introduction
According to Zhu and Huang (2007, p. 41), “whether the cultural integration is successful or not is critical to the success or failure of a cross-border M&A.” Building on this citation, chapter four will explore the concept of cultural integration, and explain why it is crucial for a successful cross-border M&A.

This chapter will answer the final research question: “How can cultural integration be applied to contribute to a successful cross-border M&A?”

4.2 The concept of ‘cultural integration’
When two corporations engage in cross-border M&As, a new culture has to be developed out of two individual cultures during the integration process. There are four distinct, but interrelated, options which will be described in section 4.3. Also, the processes, resources and operations have to be integrated (Zhu and Huang, 2007). Shrivastava (1986) states that cultural integration is the most critical type of integration.

Zhu and Huang (2007) describe the concept of ‘cultural integration’ as a process in which the cultural differences of organizations are recognized and coordinated. Cartwright and Cooper (1993) elaborate on this, by stating that in the process there is interaction and adaptation between the cultures involved. As a result a new culture will arise. Since adaptation is required in this process, they also warn for possible culture clashes because sometimes one culture does not want to change.

The objective of ‘cultural integration’ is to eliminate conflicts resulting from cultural differences and to coordinate and to make the different cultures coexist and develop (Zhu and Huang, 2007). Therefore, a successful ‘cultural integration’ is crucial to a successful cross-border M&A, because if the cultural integration is not successful, cultural differences will persist resulting in cultural conflicts and loss of productivity. According to Schuler and Jackson (2001) productivity drops by 50% as a result of poor integration, regardless in which area the poor integration occurs.

Zhu and Huang (2007) propose cross-cultural management as an effective and feasible method to achieve cultural integration.

4.3 Cross-cultural management
The construct of ‘cross-cultural management’ refers to “a system that an enterprise, in the course of M&A, selects adaptive pattern of cross-culture management, overcomes conflicts and unfavourable influences, converts the negative factors into positive factors, and gains power of the cultural synergy” (Zhu and Huang 2007, p.42). People form the core of ‘cross-cultural management’, and
therefore central values to this concept are respecting and understanding other cultures, communication, and making adaptive changes.

‘Cross-cultural management’ consists out of four interdependent principles to solve cultural differences in the integration process: localization strategy, employ the culture of the parent company, cultural innovation, or evasion tactics.

**Localization strategy**
With this strategy, each subsidiary is considered as independent. Therefore, each entity can decide for itself, without being directed by the parent company, what culture it wants to employ. The subsidiary adapts in this principle to the local culture and customs (Zhu and Huang, 2007).

**The employment of the culture of the parent company**
In this case the acquiring company forces its culture on the target corporation. It is being directed, controlled, and supervised by the acquiring company. Often employees of the parent company are appointed to manage the target company and to get the local employees to accept the culture of the parent company (Zhu and Huang, 2007).

**Cultural innovation**
In this strategy, a new culture is developed through the integration of the two individual cultures of the corporations involved in the cross-border M&A. The two cultures will coexist and the best of each will be selected (Zhu and Huang, 2007).

**Evasion tactics**
This principle is employed when there is a significant gap between the cultures of the acquiring corporation and the target firm. In this case the key cultural differences will be avoided; therefore the problem will not be addressed. This principle can only be used as a transitional (Zhu and Huang, 2007).

Each of these principles can be combined, depending on the character of the culture and the demands of the acquiring and target corporation, to resolve cultural conflicts.

**4.4 Success factors for cultural integration**
Based on the work of Eisele (1996), Bijlsma-Frankema (2001) has identified three success factors for a successful cultural integration in M&As: cultural fit, cultural potential, and competent managers.

Bijlsma-Frankema (2001) defines cultural fit as the preference for management style, ways of planning, compensation culture, formalisation, time perspective, and growth orientation, and she argues that the higher the cultural fit between two organizations, thus the more similar they are, the less resistance there will be in the cultural integration process.

Cultural potential, the second factor, is described as cultural characteristics which direct how organizations handle the relations with other organizations and cultures. Eisele (1996, as cited in
Bijlsma-Frankema, 2001) identifies four characteristics which construct the concept of cultural potential: the openness to new ideas (innovative potential); the level of trust one has in each other (trust potential); thinking in terms of two parties that need each other to achieve a common goal (mutual dependence potential); and lastly, a tendency for sorting out differences and conflicts, understanding differences, and coordinating behaviour (integrative potential). According to Bijlsma-Frankema (2001), the higher the cultural potential, the easier the process of cultural integration will proceed.

The third and final factor identified by Bijlsma-Frankema (2001) is competent and motivated managers. According to Bijlsma-Frankema (2001), even though cultural potential and cultural fit are high, positive outcomes are not guaranteed. To ensure a positive outcome, competent managers should be in charge of the cultural integration process. In order to guarantee and enhance the success of the cultural integration process, Bijlsma-Frankema (2001) brings forward three tasks which should be performed by management: managing the relationship with the external environment (e.g. suppliers, customers, government); managing the internal integration (apply cultural integration to create synergies); and motivating and managing the commitment of the employees (productivity should be achieved to sustain the success of the firm).

Furthermore, Bijlsma-Frankema (2001) states that in the cultural integration process mutual adaptation and cooperation are crucial for a successful integration, as well as trust, which is, according to Creed and Miles (as cited in Bijlsma-Frankema, 2001), “the most efficient means to arrive at productive co-operation between individuals or groups”.
5. Conclusion

This bachelor thesis has examined the concept of cross-border mergers and acquisitions (cross-border M&As) in relation to culture. First of all, a thorough definition is provided of the concept of cross-border M&A and all concepts related to it. Also, the paper provides an overview of motives to engage in general M&As and specifically in cross-border M&As. First, the general M&A motives are distinguished in the paper in two main, covering categories of M&A motives: M&A motives based on the ‘neoclassical profit maximization theory’ (which includes Neary’s (2007) ‘efficiency motive’ and ‘strategic motive’, and Wübben’s (2007) ‘shareholder value related motives’) and M&A motives based on the ‘principal-agent theory’ (which compromises Wübben’s (2007) ‘management related motives’). Following this, empirical findings are presented on the reasons for firms to engage in M&As. The paper also takes a look at motives which hold specifically for cross-border M&As.

Since the paper is concerned with culture in relation to cross-border M&As, the concept of culture is thoroughly examined. It is argued that in relation to M&As, culture can be looked at from the perspective of ‘national culture’ and ‘organizational culture’. Both concepts are thoroughly described and defined.

The paper continues with an examination of the impact of culture on the performance cross-border M&As. According to the literature, a conclusion on the impact of organizational culture on M&As cannot be provided since the results of the impact on performance are both positive and negative. Concerning national culture, it is concluded there is a positive relationship between cultural differences and the performance of cross-border M&A (Teerinkangas & Very, 2006). In a closer examination of the the academic literature, it can be stated there is no consensus on the impact of culture on the performance and value of cross-border M&As.

Lastly, the construct of cultural integration is considered, since a successful cultural integration is claimed to be crucial for a successful M&A (Zhu and Huang, 2007). Moreover, cross-cultural management, which consists of four principles (localization strategy, the employment of the culture of the parent company, cultural innovation, and evasion tactics), is presented as a method to achieve cultural integration. Key success factors for cultural integration are also presented.
References


