

The background of the slide features a low-angle shot of the tail fins of two commercial aircraft against a clear blue sky. On the left, the tail fin of an Air France aircraft is visible, characterized by its white base with three thick blue diagonal stripes and a red section at the bottom. On the right, the tail fin of a KLM aircraft is shown, featuring a white base with the KLM crown logo and the letters 'KLM' in blue. The title text is centered over the upper part of the image.

Lessons learned from the Air France - KLM integration

Bachelor Thesis

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Management summary

In 2004, two leading European airline companies merged: Air France and KLM. The cooperation will be used to work intensively together on the reduction of costs and increase revenues (Baeten, 2007). Cross-border mergers and acquisitions (M&A) take the most substantial share of foreign direct investments (FDI) among developed countries (Coedacier et al. 2009). 2006 set a record for M&A worldwide; deals totalled \$3.79 trillion, 38% higher than in 2005 (Monin et al., 2008). However, failure rate is high. According to Carleton and Stevens this rate equals 56 to 77 percent (2004), according to Stahl between 50 to 70 percent or even higher (2004). Problems in the integration of dissimilar cultures and staff of the merged firms are often the cause of M&A failures (Harzing, 2004: p.90).

In this paper the role of culture in the Air France KLM merger is researched and its implications to make the integration process successful. Conclusions were reached by primarily investigating several research areas. A theoretical part is assigned to describe cross-border M&A, the influence of culture on M&A, five merger input factors in the aviation industry and a description of culture using Hofstede's culture dimensions. To understand and explain the case of Air France KLM primarily the aviation industry is analyzed. Liberalization in the European aviation industry in the beginning of the nineties led to the formation of alliances. Due to high operating costs and low passenger loads European Airlines reported high losses. Del Canho & Engelfriet (2008) concluded round the year 2000 that partnering with one of the main European carriers (British Airways, Lufthansa or Air France) was unavoidable for KLM. The partner thus became Air France. Differences between cultures of France and the Netherlands are that France is more hierarchical, centralistic and France public servants and business leaders are often the same people, so government has more influence on business. To prevent or overcome cultural problems Air France KLM took a lot of measures, amongst others joint training programmes, quarterly questionnaires and monitoring staff satisfaction, investing in the beginning especially on human integration instead of organizational integration. Opinions of cultural researchers about the mergers are mixed. Trompenaars is not negative about the merger, while Hofstede expressed his thought that the merger will burst again on the long term due to dominance of the French.

Conclusions are positive about the operating procedure of the merger to prevent and overcome cultural problems. These conclusions are all based on a successful integration of employees. The

fact that Air France KLM realized culture could become a problem and hired a company specialized in cultural differences showed their awareness of potential issues. Other positively influencing factors on employees' integration are the friendly characteristics of the merger, jointly development of a new culture for both companies and the slow route of human integration, ensuring employees' satisfaction. A possible drawback may be that too little attention is paid to employees who actually do not get to work with their new colleagues.

Foreword

This thesis serves as a completion of the Bachelor study Business Studies, a program within the Faculty of Economics and Business Administration at the University of Tilburg. It is written under the Organization and Strategy department concerning the topic of entry modes and boundaries of the firm, with supervision provided by Dr. M. Overboom.

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➤ Chapter 1 – Introduction

1.1 Introduction

This chapter consists of five main parts; starting with the problem identification, sketching the characteristics of the case to be researched. The problem statement is given, defining the main question dealt with in this thesis. Subsequently research question are provided to solve the problem. The research design and data collection identify the type of research that will be done and the way data will be gathered for this thesis. Finally, the structure of the thesis will be given.

1.2 Problem Identification

During the last decade, cross-border mergers and acquisitions (M&A) have gained in usage (Shimizu et al., 2004), most likely because they provide the opportunity to acquirers to enter foreign markets more quickly than in other entry modes (Chakrabarti et. al., 2009). Non cultural factors have been emphasized in theory, while it is increasingly acknowledged that management styles and business performance cannot be separated from national or regional influence of culture (Angwin, 2001). Nocke and Yeaple (2006) stated that ‘the literature on cross-border M&A is still in its infancy’.

Several literature sources state that in cross-border M&A the failure rate is rather high: according to Carleton and Stevens this rate equals 56 to 77 percent (2004), according to Stahl between 50 to 70 percent or even higher (2004). Problems in the integration of dissimilar cultures and staff of the merged firms are often the cause of M&A failures (Harzing, 2004: p.90). Several researchers have studied the cultural differences between nationalities and its influence on organizations. Trompenaars (1998) stated in his book that if business people want to acquire understanding of and fidelity to their corporate aims, policies, products or services wherever business is conducted, they must cover what those and other elements of management mean in different cultures. Hofstede (2001) mentioned in his book that a lack of adaptation to unfamiliar cultural environments cause problems such as communication breakdowns, loss of effectiveness and even sometimes complete failure. Thus, culture is an important variable in cross-border M&A. Founding's of research showed that neighbor countries are the difficult ones for acquisition, since familiarity breeds contempt, but without familiarity it is tough ‘to breed anything at all’ (Angwin et al., 1997).

Fan et al. stated in 2001 that an emergence of strategic alliances in the global airline industry was taking place since the late 1980s, and questioned the proliferation, whether airlines would consolidate with one other to form mega-carriers. In 2004, two leading European airline companies merged: Air France and KLM, in order to create a leading position in world's international passenger traffic (Carley, 2008). The Air France-KLM group consists of three departments; regional airlines, freight carrier operations, and aircraft-maintenance (Carley 2008). Both Air France and KLM consciously chose to maintain their own identity and keep their underpinning hubs. KLM expresses it to be too valuable to give up the attachments of the KLM brand and its clients, staff and concerning relationships (Baeten, 2007) According to Baeten, representing KLM, Air France shares these thoughts. The cooperation will be used to work intensively together on the reduction of costs and increase revenues (Baeten, 2007).

Pritchard (2008) stated that the company is profitable now, though mentioning considerable challenges of amongst others bringing together cultures. Canho & Engelfriet (2008) expressed that Air France and KLM have become a good example for making a merger successful.

1.3 Problem Statement

To what extent can the Air-France KLM case be taken as an example for future cross-border mergers and acquisitions dealing with cultural differences?

With cultural differences is meant the way how Air France and KLM dealt with the human integration to make the merger successful.

In this research literature about mergers and acquisitions will be generalized, since in literature such generalization is made as well and for this research no distinction has to be made in order to do a proper literature review.

1.4 Research questions

1. What are the characteristics of cross-border mergers and acquisitions?
2. What is the role of national culture in mergers and acquisitions?
3. Which factors describe the aviation industry and led Air France and KLM to merge?

4. What are the characteristics of the French and the Dutch culture and how are these cultures compared to each other?
5. What are the implications of the cross-border merger of Air France-KLM to reach a successful integration so far?

1.5 Research design and data collection

The research is descriptive, describing characteristics of variables in a situation to understand characteristics of organizations that follow certain common practices (Sekaran, 2003). The characteristics of organizations which is going to be researched in this case refers to the Air France-KLM merger; whether this has been an example of a successful merger, what the right course of actions were and the parts that should have been done differently or better. The variables which are going to be described, in order to get a better understanding of the Air France KLM merger are:

- Cross-border mergers and acquisitions, providing characteristics of cross-border M&A, and the kind of influences the international aspect can have on organizations;
- Role of national culture on M&A, to investigate what kind of influence culture has on the performance of an organization and to define what problem area's there are;
- Aviation industry, to describe the environment in which Air France-KLM is working in and get a better understanding of the reasons that drive such a cross-border merger in the aviation industry;
- French and Dutch culture, to get an understanding of one's actions that are led by cultural factors, one has to know what each other's moral standards and values are in order to understand ones behavior and decisions, to be able to work together.

Data collection

In this thesis a literature review will be executed, since no empirical testing will be done. The sources that will be used are secondary. Valid sources will be gained by university publications that can be obtained. Search engines of which access can be obtained, like JSTOR, ABI/Inform and Online Contents will be used for the search of requisite information. Information found via www.scholar.google.com will be used as well, however with a special regard to its sources, if it was published in a top journal, to check its reliability. For this citations will be taken into

account. The snowball effect will also be used, searching for publications in literature references.

To ensure the reliability of the paper, all information will depend on as many of different publications of top journals as possible. It will be tried to use sources with only a limited datedness; preferring sources dated after the year 2000. Sources dating before the year 2000 will primarily be evaluated concerning its validity in the current market context.

1.6 Structure of the thesis

In the following chapter one can find theory, used to examine the research questions in the field of cross-border M&A, the role of national culture in M&A, five merger input factors in the aviation industry and a description of culture using Hofstede's culture dimensions. Using the theory, in chapter three a theoretical framework will be given, describing the research method of chapter four. In chapter four the merger case will be analyzed, describing the aviation industry prior to the merger, French and Dutch culture and both cultures compared to each other, and finally measures taken by Air France-KLM to merge successfully will be examined. Conclusions and recommendation concerning the literature review will be done in chapter five. Finally, references and the appendix will be provided in the last part of the thesis.

➤ Chapter 2 – Theory

2.1 Introduction

In this chapter relevant theory will be provided concerning the research questions related to cross-border M&A, the role of national culture in M&A, five merger input factors in the aviation industry and a description of Hofstede's cultural dimensions.

2.2 Cross-border mergers and acquisitions

Many companies expand their business via cross-border M&A; deals worldwide totaled \$3.79 trillion in 2006, 38% higher than in 2005 (Monin et. al., 2008). Cross-border M&A can according to Shimizu et al. (2004) be defined from three perspectives: '(1) mode of entry in a foreign market, (2) dynamic learning process from a foreign culture, and (3) value-creating strategy'. Taking M&A separately, a foreign acquisition can be described by means of a foreign cooperation which fully purchases a local company (Koen, 2005: p.111). An international merger is similar to a foreign acquisition, only in this case the partners are often approximately of equal size or importance (Koen, 2005: p.111).

Concerning the reason why cross-border M&A are used so frequently, Chakrabarti et al. (2009) state a number of advantages: economies of scale, exploiting foreign market opportunities and the assessment of scarce resources. Furthermore, there is a general belief between managers that the usage of an acquisition provide a faster and easier way to reach growth and diversification objectives (Datta, 1991). Besides these advantages of cross-border M&A, Shimizu et al. (2004) suggest that there are three factors influencing the decisions to use a M&A as a mode of entry when entering a foreign market: '(1) firm-level factors such as multinational experience, local experience, product diversity, internal isomorphism, and international strategy; (2) industry-level factors such as technological intensity, advertising intensity, and sales force intensity; and (3) country-level factors such as market growth in the host country, cultural idiosyncrasies between the home and host countries, and the specific culture of the acquiring firm's home country (particularly in terms of uncertainty avoidance and risk propensity)'.

Cross-border M&A take the most substantial share of foreign direct investments (FDI) among developed countries (Coedacier et al., 2009). Popularity of cross-border M&A has increased due to globalization and technological development (Shimizu et. al., 2004). These developments

also increased the pressure to form cross-border M&A (Shimizu, 2004). In the midst of booming stock markets and worldwide financial liberalization, M&A skyrocketed in the 1990s and reached its peak in 2000; following world economies cyclical paths with a sharp decline in 2001-2003 (Coedacier et al., 2009).

Regarding the differences of cross-border- and national M&A, cross-border M&A are viewed to be more risky than domestic ones, since in the first case problems related to acquisitions are deteriorated by national cultures, language, politics and regulation (Angwin et al., 1997). The success rate of cross-border M&A is not necessarily lower than that of domestic ones. Presence of more evident national culture may increase the attention of its importance to the integration process (Harzing, 2004: p.91). This statement is backed up by Chakrabarti et al. (2009), declaring that the sensitivity towards cultural issues of cross-border M&A's managers is higher than those managing domestic mergers. This reflects the importance of the acknowledgement of cultural differences before integrating. Shimizu et. al. (2004) also stated that a due diligence process should provide a thorough analysis of all intangible assets and resources, examining further than just the financial health of the target firm.

The success of a cross-border M&A is based on multiple factors. When a new company has been created mixed teams have to be formed, while maintaining a balance of work groups, delegating responsibilities and specifying salaries (Barmeyer & Mayrhofer, 2008). Communication will be an important factor, because of to the different interests of managers, and lastly cultural changes have to be anticipated as well; due to the willingness of implementing one's own methods, work tools and management style (Barmeyer & Mayrhofer, 2008). Conflicts will be avoided when creating with positive aspects of each culture a new culture; the success of cross-border M&A is largely based on having a joint project and an efficient human resources management (Barmeyer & Mayrhofer, 2008).

2.3 Role of national culture in mergers and acquisitions

Culture can be defined as a 'system of shared behaviors, values, and meanings of a designated group of individuals' (Brannen et al., 2009). There are two forms of culture dealing in cross-border M&A: institutional and national culture. In practice these two are very much related with each other, however, because of the foreign aspect in this thesis, national culture is of greatest concern, therefore the focus will be placed upon the latter one.

Culture is a significant factor in cross-border M&A and is the main cause of failures. At all stages in the M&A process, national cultural differences are important (Angwin, 2001). Pressure for conformity exists due to social and cultural systems' embeddings of companies (Angwin, 2001). M&A in domestic markets are implemented while having homogenous rules and alike cultural norms; in cross-border M&A these norms and values will come above as national differences (Angwin, 2001). Cultural differences make the integration process in cross-border M&A difficult; the challenge is to integrate the strengths of each culture, 'while showing mutual respect and establishing a coherence between the strategies, cultures, organizational forms, management styles and modes of communication' (Barmeyer & Mayrhofer, 2008). Cultural differences which cause such integration problems are: religious convictions, language and cultural differences, and professional behavior are potential pitfalls (Varney, 2008). According to Brannen et al. (2009), national cultural discrepancies in M&A produce more stress, create negative attitudes toward the merger, less cooperation, less engagement, and managers with negative experiences resigning their jobs.

Having cultural elements in both ways, it is assumed to be a balanced two way flow, though members of one culture often try to dominate the other culture; the acquirer company being the dominant one (Koen, 2005, p.111). In a foreign acquisition, cultural conflicts are frequently 'solved' by using brute power: representatives of the own corporation take over the places of key people (Koen, 2005: p.111). In an international merger, cultural risk is even more substantial than regarding a foreign acquisition, because of the fact that cultural issues cannot be eliminated by means of a one sided show of power (Koen, 2005: p.111). The kind of managerial control exerted on foreign subsidiaries is also strongly affected by nationality (Angwin, 2001).

According to Varney (2008), 'you do not have to work overseas to feel the impact of other cultures in the workplace'. This statement is backed up and explained by Angwin et al. (1997), declaring that acquisitions in neighbor countries may not be facile. He also assists the idea that countries with considerable different cultures would identify each other as especially difficult district for acquisition. However, founding's of his research showed that neighbor countries are in fact the difficult ones for acquisition. He explains this by the fact that familiarity breeds contempt, but also saying that without familiarity it is tough 'to breed anything at all'.

Chakrabarti et al. (2009) share this view by expressing that acquisitions perform better being culturally distant, rather than being culturally proximate.

In M&A cultures have to come together; acculturation has to take place to integrate, describing the 'changes induced in (two cultural) systems as a result of the diffusion of cultural elements in both directions' (Koen, 2005, p.111). Some companies are conscious about national characteristics and aware of the fact that these can be used for advantages in negotiating and directing acquisitions (Angwin, 2001). There are three stages identified of acculturation; contact, conflict and adaption, which occur at the group- and individual level (Koen, 2005, p.111). Acculturation can be achieved via informal interactions: 'involve the affected employees in such socialization activities as introduction programs, training, cross visits, joining retreats, celebrations and other such socialization rituals', then if they are allowed autonomy, most likely they will develop an own joint culture, based on free will (Larsson and Lubatkin, 2001). In this case no conflict will arise, however supplementary social control mechanisms are needed when autonomy is restricted, including: 'transition teams, senior management involvement and temporary personnel exchange/rotation' (Larsson and Lubatkin, 2001). Though, forcing acculturation will cause resistance (Larsson and Lubatkin, 2001), leading to a higher chance of failure.

An important factor when increasing the success rate of cross-border M&A is the usage of intercultural management practices (Barmeyer & Mayrhofer, 2008), providing information and tools needed to succeed integration.

2.4 Five merger input factors in the aviation industry

Del Canho & Engelfriet (2008) concluded in their research that five major factors are the input of a merger's success in the aviation industry:

Jointly develop an explicit vision, ambition and strategy

For the first three years after the merger, set up an executive body, Strategic Management Committee (SMC). Managers of both companies are due to this process forced to discuss and write down their view of the business and the way of managing it to make the merger a success. Due to the success of this process, it is repeated annually. Creating this joint vision, ambition

and strategy is especially important for cross-border mergers, to prevent ambiguity and confusion.

Integrate only when a clear business rationale exists and consider a step-wise approach

A stepwise approach has to be taken for a gradual integration; focusing too much on the organization is a major cause for merger failures. This because when too little attention is paid to staff, they will start to worry about their position in the company, delay decisions and gossip; attracting their attention instead on the customers. Efficiency will drop and when people are dissatisfied with the new policy, they may start to leave the company.

Adopt a targeted approach to create trust, respect and working together

Bridging differences is far better than imposing new ways of working in a M&A. In order to work together people have to understand each other, and be provided with tools to reach cooperation. A program has to be set up for bridging differences, which includes five elements: culture bridging sessions (both seminars and team sessions), people development (training and selection), incentive setting using group objectives, monitoring of employee perception and satisfaction and a manager exchange program. Top management has to model the right example for support.

Create a joint team leading the combination in all aspects

Both companies have to be equally represented in the SMC, meeting bi-weekly and taking turns in both countries. In this way sufficient top management attention, group spirit and commitment can be assured. There must be a team dealing with fair decisions for both companies, composed of people from both groups, on a daily base as well. They will be in direct contact with top management.

Adopt an explicit multi-stakeholder approach

Prior to the merger, options have to be evaluated in terms benefits for the stakeholders. For example stating the pros and cons for employees for a better merger, this also explains the deal easier. Interests of all stakeholders have to be declared and secured. Guarantees on fair representation, fair growth for both hubs and keeping both brands has to be negotiated.

Synergies, employee satisfaction and customer perception has to be monitored in the implementation phase, so issues can be spotted and dealt with as quickly as possible.

2.5 Hofstede's culture dimensions

The culture of the home countries of the merged firms will be analyzed according to the cultural dimensions defined by Hofstede.

Power distance (PDI)

'The extent to which the less powerful members of organizations and institutions (like family) accept and respect that power is distributed unequally' (Hofstede, 2009). He stated that this inequality is ratified by both the followers and the leaders, and that all societies experience inequality, some more than others.

Individualism (IDV)

Individualism versus collectivism is 'the degree to which individuals are integrated into groups' (Hofstede, 2009). In individualistic societies ties between individuals are loose, everyone looks after him/herself and ones direct family. While in collectivistic societies there are strong cohesive in-groups, where people integrate into from birth. Family is more extended, which members are protected in exchange for unquestionable loyalty.

Masculinity (MAS)

Masculinity versus femininity refers to 'the distribution of roles between genders which is another fundamental issue for any society to which a range of solutions are found' (Hofstede, 2009). Masculinity refers to assertive and competitive characteristics exerted in a society, whereas femininity refers to a modest, caring society.

Uncertainty Avoidance Index (UAI)

Uncertainty avoidance 'deals with a society's tolerance for uncertainty and ambiguity; it ultimately refers to man's search for truth' (Hofstede, 2009). Uncertainty avoiding societies try to minimize the possibility of unstructured situations (different from usual) by strict laws and rules, safety and security measures. Hofstede (2009) states that people in uncertainty

avoiding societies are more emotional, and inner nervous energy is their motivation. Whereas people in uncertainty accepting societies are more tolerant to opinions different than usual and try to reduce rules as much as possible.

Long-Term Orientation (LTO)

Long-term versus short-term orientation is a fifth dimension found by students and added to Hofstede's framework. It refers to the long-term values thrift and perseverance, and the short-term values respect for tradition, fulfilling social obligations and protecting one's 'face' (Hofstede, 2009).

Replication of Hofstede's dimensions in the aviation industry

Research done by Merritt (2000) was to 'determine if Hofstede's indexes could be replicated in the commercial aviation environment such that differences in pilot behavior and training could be discussed in a broader cultural context'. Results showed that a one-size-fits-all training is not suitable, since national cultural effects can be viewed 'over and above' professional pilot culture. Analysis of Hofstede's items reached 'significant replication correlations for all indexes (Individualism-Collectivism .96, Power Distance .87, Masculinity-Femininity .75, and Uncertainty Avoidance .68)' (Merritt, 2000). See appendix one for the empirical measurements.

➤ Chapter 3 – Research methodology

3.1 Introduction

In this chapter one will find a description of the method to be used in chapter four, to evaluate the merger. Based on the theory of chapter two, a theoretical framework is developed, which structures the analysis of chapter four.

3.2 Theoretical framework

A theoretical framework has been developed to guide the analysis of the merger case in the next chapter. From chapter two, two variables can be derived as independent variables: industry analysis and culture. The industry analysis is based on the aviation industry prior to the merger on a worldwide and European level. Culture can be based on Hofstede's cultural dimensions. The dependent variable of the merger case is human integration, describing three integration elements: management, employees' willingness to cooperate and communication. By means of the theoretical framework the influence of the industry and culture on the human integration can be measured.

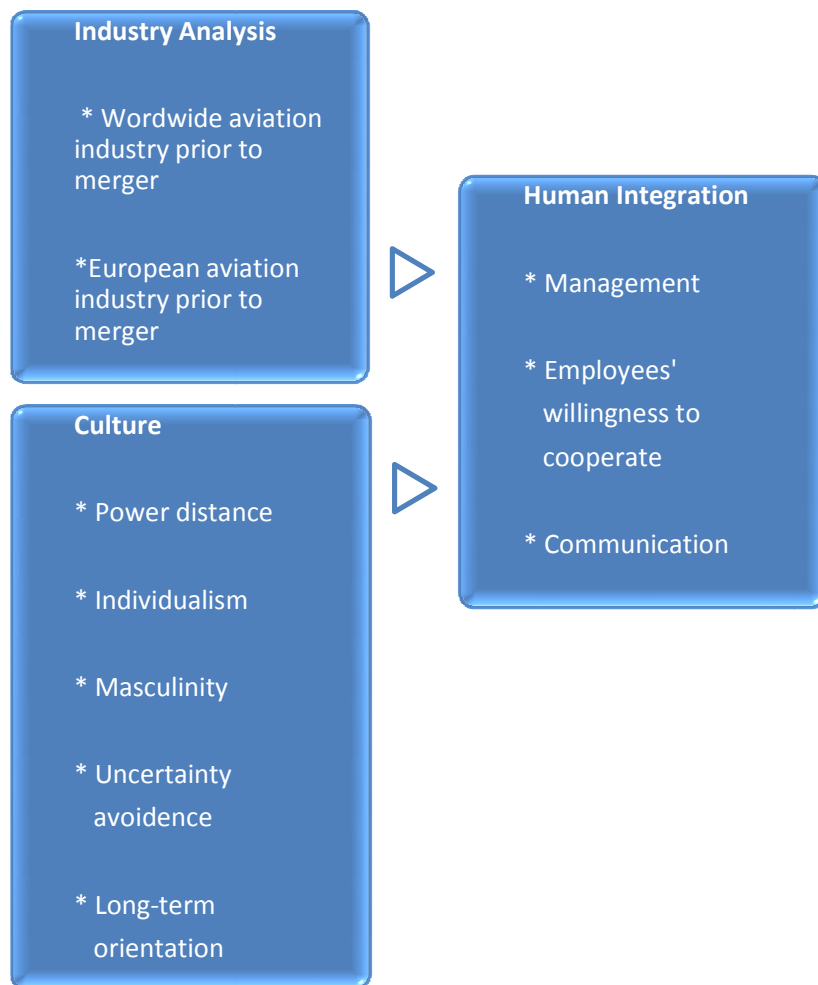


Figure 1: Conceptual framework

➤ **Chapter 4 - Case**

4.1 Introduction

In this chapter the third, fourth and fifth research questions related to the case will be discussed. These research questions include an industry analysis of the aviation industry prior to the merger worldwide and on a European level. The next research question dealt with concerns an analysis of the French and Dutch culture, and the final research question deals with the actual Air France-KLM merger case.

4.2 Industry analysis

4.2.1 Worldwide aviation industry

Worldwide there are three main Airline alliances operating: Star, Oneworld and Skyteam. Air France-KLM is part of the latter one. The goal of these alliances is to provide a more extended network to their clients to increase their market share and to reduce costs. This is done in a way that passengers can easily find flight connections via the alliance to member airlines and can make coordinated reservations. Quality service and several other member advantages are uniformly by alliance member airlines.

4.2.2 European aviation industry prior to merger

The aviation industry in the United States of America (USA) was deregulated in 1978, which led to the formation of hub-and-spoke¹ airline networks (Adler, 2001).

This experience can be taken as an example; since the nineties, the European Union and the Far East are undertaking the same process of deregulations (Adler, 2001). These processes of deregulations imply: free market entry, unrestricted setting of airfare and level of service by airlines (Adler, 2001); influencing the airlines operating in this region. Adler (2001) states that international strategic alliances were taking place, encouraging regional or continental hubbing for the creation of a global airline network. The formation of the three main alliances worldwide can be ascribed to the liberalization: Star in 1997; Oneworld in 1999; Skyteam in 2000, formed after deregulation of in the aviation industry.

¹ A hub and spoke network is a system in which connections are made in the form of a chariot wheel, in which all traffic moves along *spokes* connected to the *hub* in the centre.

A paper by Burghouwt (2001) has investigated whether deregulation in the European Union during the time period 1990-1998, has led to a similar process as in the USA, emphasizing intra-European and intercontinental flight services. Conclusions are that there is no concentration on a small number of hubs on the intra-European level, however, intercontinental traffic is increasingly based on hub airports (Burghouwt, 2001). One again it is concluded that a hub-and spoke network has developed, where national airlines dominate (Burghouwt, 2001).

One of the most significant changes brought along in the airline industry due to the deregulation was the emergence of the low cost market segment, like Virgin Express Europe and Easyjet, operating at lower costs than some major airlines, o.a. Air France (Suman, 2004).

The European aviation industry reported losses in the early 21st century due to high operating costs and low passenger loads (Suman, 2004). Suman (2004) stated three major environmental affects, influencing the European aviation industry. The aviation attacks in the US on September 11, 2001, worsened the figures. This decline in intra-European traffic was 11,6% regarding the same period in 2000. The second Gulf war in 2003 reduced 50% of air traffic on Middle-East routes, 10% in Europe and the Far-East, and 5% in the North Atlantic. Finally in 2003 a SARS out-break was reported from Asia, which led to a significant decrease of flights to Asia for about two months. During a four month period an operational loss of \$870 million was estimated due to the virus.

Del Canho & Engelfriet have made a review in 2008 concerning the Air France KLM merger. Del Canho has served as Senior Vice President Corporate Strategy and Business Development at KLM during the merger, and Engelfriet has served as Director Strategy and M&A at KLM and was deputy to Del Canho. They concluded round the year 2000 that partnering with one of the main European carriers (British Airways, Lufthansa or Air France) was unavoidable, due to the vision that in the future there would globally only be room for three prime alliances, centered around one of the main three in Europe. They also state the 9/11 reason as a need for change and mentioning the conditions of other airlines; the bankruptcy of Sabena and Swissair and the loss of two million euros per day of Alitalia. Due

to these events Del Canho and Engelfriet (2008) came up with 'a two-tiered strategy: improving our standalone position and finding a major European partner'.

This analysis shows that the environmental pressure on KLM was high prior to the merger; there was a sense of urgency for KLM to merge.

4.3 Culture comparison

The scores of France and the Netherlands on Hofstede's cultural dimensions will first be evaluated separately, and then compared to each other. The fifth dimension, long-term orientation, will however not be incorporated, since there is no score of France.

4.3.1 French culture

Power distance

France scored 68 on power distance. This relatively high score, the highest power distance of any European nation (Angwin, 2001), means that the French society experiences inequality. Power is unequally distributed and less powerful people accept and respect this inequality. Angwin (2001) relates this to the 'top-down' approach of management styles.

Individualism

France scored 71 on individualism. This score refers to quite individualistic behavior of French society. There are loose bonds with others; privacy, individual pride and respect are core important values for French citizens. The high level of individualism is a bit of a paradox, since French have a high power distance as well. Angwin (2001) describes this paradox: 'This may reflect that the French tend not to adhere to rules as closely as they might, and this perhaps tempers the doctrinaire formality of their organizations'.

Uncertainty avoidance

France scored 86 on uncertainty avoidance. Strong uncertainty avoidance refers to a need for strict laws and rules, safety and security measures. Unknown or ambiguous situations are perceived as threatening. In business, the French have used protectionism, corporatism and

collusion to avoid uncertainty in business (Angwin, 2001). Furthermore uncertainty is reduced by a pyramid structure with strong centralization and bureaucracy (Angwin, 2001).

Masculinity

France scored 43 on masculinity, referring to a caring state. At work personal relations, cooperativeness and security are important, re-enforced by honor (Angwin, 2001). This combination leads to a gap between official and unofficial rules, explaining managers' beliefs of authority as being a social design and accepting 'political' conduct due to the fuzziness of organizational structures (Angwin, 2001).

4.3.2 Dutch culture

Power distance

The Netherlands scored 38 on Power distance. The Dutch society experiences inequality to a lesser extent, meaning that people want to be treated equally, be accepted and respected. This respect in business comes forward in speaking out explicitly, capable to have input in the success of the firm and using their expertise and abilities to help others (Angwin, 2001).

Individualism

The Netherlands scored 80 on individualism. This refers to more individualistic behavior and relative loose bonds with others. 'Privacy is considered the cultural norm and attempts at personal ingratiation may meet with rebuff' (Hofstede, 2009). Highly placed values are individual pride and respect and degrading a person is not well received, accepted, or appreciated (Hofstede, 2009). In business this can be traced back to the value Dutch attach to work on their job with their own approach (Angwin, 2001). Management is more based on consensus, is decentralized, and low hierarchy is traceable in an organizational pyramid is very flat (Angwin, 2001)

Uncertainty avoidance

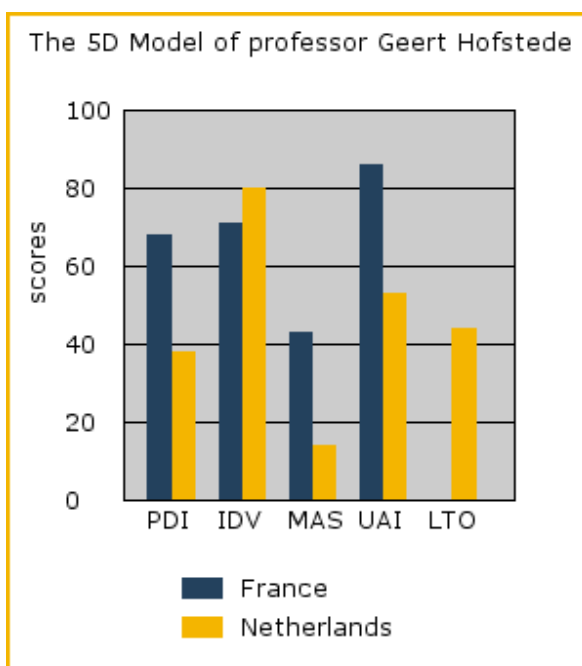
The Netherlands scored 53 on uncertainty avoidance. Hofstede (2009) explained that 'a moderate score may indicate a cultural tendency to minimize or reduce the level of uncertainty

within the population by enacting rules, laws, policies, and regulations to cover most any and all situations or circumstances'. In business prestige in knowledge is applied, reinforcing a aloft analytical approach (Angwin 2001).

Masculinity

The Netherlands scored 14 on masculinity. This low index is indicative of: 'a low level of differentiation and discrimination between genders'; 'females are treated more equally to males in all aspects of society' and it refers to 'a more openly nurturing society' (Hofstede, 2009). In commerce, this can be traced back again in the need for consensus, based on open exchange of opinions (Angwin, 2001).

4.3.3 French and Dutch culture compared



Figuur 2: French and Dutch scores on Hofstede's cultural dimensions

Source: www.geert-hofstede.com

There is a great difference on power distance between France and the Netherlands; France scored 30 points higher on this than the Netherlands. This difference can be traced back in the hierarchy of the two countries. Noorderhaven (personal communications, March 4, 2009)

indicated that Air France is more hierarchical than KLM, and that KLM sees it this way as well. Thus, KLM is less hierarchical, which Air France calls chaos. Leo van Wijk (2005), CEO at KLM during the merger, ratifies this by saying that the French are more skillful in hierarchical thinking than the Dutch; what does the boss want to hear? Dutch instead start the discussion with interpreting and manipulating of what the boss is thinking. He also states that Dutch people like to have a roadmap upfront, to know what they are up to, while French people see what they get, often coming in need of time, but due to their inventiveness and improvisation they make it work. In a way the Dutch are not capable of doing so. Referring to the hierarchy in the two countries, Van Wijk (2005) said that the French work more top-down, while the Dutch want to have a voice as well, being more democratic.

Uncertainty avoidance and power distance are in this case related to each other; on both points France scored higher than the Netherlands. Hofstede (Bergen, 2002) mentioned the management of Air France to be much more centralized at the CEO, accustomed to power and compliance. Thereby, in France public servants and business leaders are often the same people. Van Wijk (Izaks, 2004) confirms this by saying that in the Netherlands there is 'poldermodel' with four statutory directors at KLM, while France has an Anglo-Saxon background where the CEO is chairman of the Board of Directors and of the commissioners, being able to operate as an absolute ruler.

France also scored 29 points higher than the Netherlands on masculinity. However, France is more feminine than masculine as well. Masculinity of France can be traced back in the prestige of authority, coming along with hierarchical positions.

The difference in scores of the individualism index between France and the Netherlands is a minor one, equaling 9 points, which will not lead to considerable differences in way of conduct between the two countries.

4.4 Air France-KLM case

3.4.2 Management

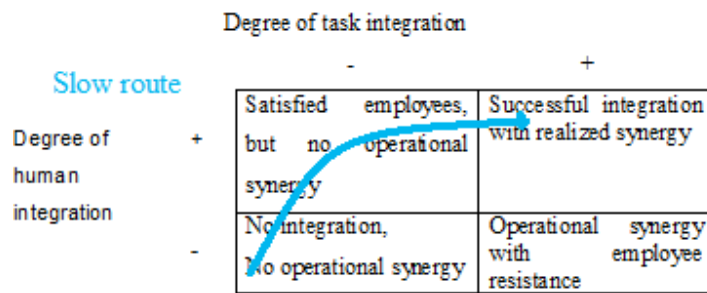
Like with diseases, preventing is better than curing problems. Air-France KLM took a lot of measures to realize a successful integration process.

Primarily they followed the guidelines set by Del Canho & Engelfriet (2008), concerning the five merger input factors. Besides, at KLM there is a Works Council which deals with the further harmonization of Air France KLM (KLM, 2006). At the Air France KLM level there is since 2006 a European Works Council to promote staff interests, which deals with subjects regarding the Air France KLM cooperation, like the fair employment division (KLM, 2006). Noorderhaven (personal communications, April 1, 2009) indicated that KLM has area managers situated at the headquarter, who have to make sure that managers in their area (consisting of a number of countries), communicate with each other; an integrative department.

Due to different legislations in France and the Netherlands, Air France and KLM have their own human resources policy (Air France, 2009). Joint teams are brought together by training program's and dialogue between management and unions, striving to reach best practices, with respect for coordination, apposing to integration (Air France, 2009).

Van Wijk (Muskens, 2006) also mentioned to have acquired a French company, Inter Cultural Management, to provide Air France and KLM with insight in cultural differences. He said that then, in 2006, synergy teams of Air France-KLM were still able to use services provided by the French company, but that they hardly used it; mentioning that in practice there are few problems to ascribe to cultural differences (Muskens, 2006). Van Wijk (Izaks, 2004) mentioned that differences between the corporate cultures of Air France and KLM are not that substantial as is being stated sometimes. He mainly emphasizes the similarities between the two airlines: both have a long existence, are large, operating worldwide and having the same political circumstances. Van Wijk (Izaks, 2004) also addresses the national symbol aspects of the airlines, also often referred to as 'flag carriers', bringing along emotions. However, their pride concerning their national symbols can be a cause for clashes between the two airlines as well.

Noorderhaven (personal communications, April 1, 2009) indicated that Air France-KLM was taking a slow integrating route; they took several years to get used to the new situation, concerning the fact that KLM was acquired. He also stated that they speed the integration process up now, since people accepted it now not to be alone anymore. Beneath one can see a table presenting approaches in post merger integration used by Noorderhaven, indicating the slow route. The fast route having the same starting and ending point, but going via 'Operational synergy with employee resistance'.



Trompenaars (Bergen, 2003) is not negative about the merger. “There were few options left for KLM. It has become a fair deal, but one with a complex partner. The only thing I, as a professor International Management, miss concerning this merger is a new business model. Because that is what most failing mergers lacks. A cooperation only containing the joining of strengths and cutting costs, usually end up with nothing. The holding company that is going to be established now, has to come up with new ideas concerning the service they can deliver as an international airline company with a new way of working. Sadly I did not hear Van Wijk and Spinetta talk about that. A new business model provides a merger élan, to use the French word. That is what the success of the alliance depends upon’.

Hofstede (Brandsma, 2003): ‘I think that Air France and KLM after a merger will burst again, I do not see how those two can function on a long term’. He ascribes this statement to the dominance of the French, stating a high possibility that Paris let political factors play a part in the Air France KLM policy, leading to great resistance of the Dutch. Lines between senior officials and directories of companies are very short, Hofstede (Brandsma, 2003): The social binding between people who know each other from the ‘les grandes écoles’ is considerable.

Employees’ willingness to cooperate

The willingness of employees to cooperate, a reflection of their satisfaction, is very important when working together and integrate successfully.

In KLM’s public report of 2005-2006, KLM states the satisfaction of employees concerning Air France and the method to monitor this satisfaction; KLM has developed a questionnaire to be conducted quarterly. The respondents are employees who actually work together with French colleagues. KLM also states that training courses are organized when problems are encountered

within joint teams of Air France KLM staff. Cultural Bridging has been developed, being a form of mediation.

KLM also stated in this public report that an external agency which compiles a benchmark using inquiry results from several companies, surveys KLM's staff satisfaction. Findings of their research in 2005 showed, according to KLM, that 98% of the staff is positive about the cooperation with Air France. Mentioning that staff is convinced that the airline combination achieves more together than operating on itself. Besides, KLM stated staff to be proud, motivated and confident about the future with Air France and eager to make it work.

Monin, Noorderhaven and Rouzies (2008) investigated the willingness to cooperate ($\alpha = 0.77$), pre-merger identification ($\alpha = 0.83$) and post-merger identification ($\alpha = 0.85$) during the Air France KLM merger; showing employees being slightly more positive concerning the merger after the merger than before the integration. See appendix two for empirical measurements.

Communication

Van Wijk (Izaks, 2004) is convinced that they made a good deal, which has to be passed on to the staff and what they continuously did concerning the progress of the discussions. Though, communication is an important factor that causes problems; such problems were experienced by Air France-KLM as well. Half a year after the merger the satisfaction among French employees working at the cargo business started to decline (Del Canho & Engelfriet, 2008). This business was led by a Dutch manager, and the French employees got the feeling that they had to do it 'the Dutch way, due to changes in the way of working; o.a. the English working language (Del Canho & Engelfriet 2008). Through lots of sessions a task force of top cargo managers listened to these issues and jointly settled different concerns, o.a. by facilitating communications through offering more language courses (Del Canho & Engelfriet 2008). Del Canho & Engelfriet (2008) stated that the moral regained quickly.

Another example is an occasion in which a KLM manager wanted to adopt the rule that emails had to be replied within 24 hours, widely used by KLM. However, at Air France calling each other is the most common way of communication when you need something. The request was declined. The suggested new way of working was both sending an email and then calling or sending the email the recipient's secretary, who in turn will print and deliver it to her boss. In this way both methods of the companies were inserted, to create most satisfaction.

Hofstede (Brandsma, 2003) mentions that French have the tendency to keep a distance to anything foreign. Concerning the Netherlands he stated that French people have mixed feelings of abomination and sometimes a little admiration; this distance leads to that French know very less about the Netherlands, leading to misconceptions at the cooperation of Air France KLM.

Van Wijk (Have, 2004) said hating it to talk about cultural differences, mentioning it to be unthinkable to bring two cultures closely together in such a short period to form a unit.

➤ Chapter 5 - Conclusions and recommendations

5.1 Introduction

In this final chapter a conclusions will be drawn based on the previous chapters, which will provide an answer to the research question of this thesis. Limitations to this thesis will be discussed as well and finally some recommendations will be done for further research.

5.2 Conclusions

The Air-France KLM case can be taken as an example for future cross-border mergers and acquisitions dealing with cultural differences.

Primarily results show that it is important to acknowledge that culture may become a problem during a merger. The fact that Air France KLM hired a company specialized in cultural differences points out that they were aware of potential emerging cultural problems during the cooperation.

Though Air France is twice the size of KLM, it did not come across as a hostile merger. This can be traced back in for example the European Works Council that was set up for Air France-KLM, concerning amongst others fair employment division (KLM, 2006), no forcing conducts were located, and according to Del Canho & Engelfriet (2008), when communication problems came up they were handled jointly, creating solutions with which everyone could agree to. Though there was an urge to merg, concerning the industry conditions, it comes across like a friendly merger; frequently stated as a merger of equals due to their similar backgrounds, position and strategy, which van Wijk (Have, 2004) was emphasizing. This state of affairs must have had a positive influence on the willingness of employees to cooperate and contributed to the success of the merger, which was shown by research of Monin et. al. (2008).

Related to the friendly merger, KLM employees did not had to get the feeling that from the merger on they had to do it the French way, which would lower morale. Therefore I think it is important for both companies to change, not only the acquired company. Creating a new culture together, give employees the feeling that now they do not work anymore for just Air France or KLM, but for Air France-KLM, as a stimulant for the identification process. Del Canho &

Engelfriet (2008) stated that a joint vision, ambition and strategy is especially important for cross-border mergers, to prevent ambiguity and confusion.

Next positive aspect concerning the merger process is the emphasis on human integration instead on organizational integration, or the stepwise approach, taking a slower route to reach employee satisfaction, also emphasized by Monin et al. (2008) and Del Canho & Engelfriet (2008).

These conclusions are all based on a successful integration of employees. The willingness of employees to cooperate is very important, that can make or break a merger.

These mentioned measures taken by Air France KLM are the main ones; its accomplishments can be reached by several policies, e.g. providing jointly trainings and conducting quarterly questionnaires.

A possible drawback may be that too little attention is paid to employees who actually do not get to work with their new colleagues, since attention is mostly paid to employees of both companies who do have to work together. They may feel left behind and not part of the Air France KLM group. Besides, when acquiring a new position within the firm in which these relations do play a part, employees can be behind in the integration process, so that a smooth cooperation is not ensured. This is based on the respondents of the quarterly conducted questionnaires, being only French and Dutch employees who actually work together (KLM, 2006). Furthermore training courses are organized when problems arise, but only provided within joint teams of Air France-KLM staff (KLM, 2006).

5.3 Limitations

This Thesis has two limitations, both concerning the acquirement of case information. Primarily, this thesis is limited because more information was obtained provided by KLM and publications by KLM's CEO during the merger, Leo van Wijk. This can be ascribed to the availability of case information provided by Dutch journals and the lack of French journals. Besides the French language was a barrier in obtaining information from a French view.

The second limitation is the fact that most information is confidential. A company will not explicitly state their problems; therefore information is bounded to amongst others provided information through conducted interviews by journals.

5.4 Recommendations

This thesis has a theoretical nature, however the case dealt with is more practical. There is a need for empirical evidence and support for the conclusions made. An empirical research including: conducted questionnaires by Air France KLM employees, and interviews with top management, in order to validate all conclusions. Another recommendation is having support to overcome language barriers during the empirical research.

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Appendix

Appendix 1

Individualism—3 items

Percentage who preferred to work for a consultative leader (vs. autocratic, directive, or consensus leader)

(Important to have) sufficient time for personal and family life

(Important to have) challenging tasks from which you get a personal sense of satisfaction

Power Distance—5 items

First officer should never assume command of the aircraft

Percentage who preferred to work for a consultative leader (R)

Decision-making ability is as good in emergencies as in routine flights

(Important to have) changing work routine with new unfamiliar tasks (R)

Personal problems can adversely affect performance (R)

Masculinity—5 items

(Important to have) challenging tasks from which you get a personal sense of satisfaction

How often do you feel nervous or tense at work—(seldom)

How often are subordinates afraid to disagree with their superiors—(seldom)

The organization's rules should not be broken, even when the employee thinks it is best (R)

Written procedures are required for all in-flight situations (R)

Uncertainty Avoidance—4 items

If I perceive a problem, I will speak up (R)

Captain should encourage crew-member questions (R)

In abnormal situations, I rely on superiors to tell me what to do

(Important to) find the truth, the correct answer, the one solution

NOTE: R = reverse-scored.

Appendix 2*Willingness to cooperate ($\alpha = 0.77$)*

1. If the cooperation with KLM (read Air France for KLM employees) has an influence on my work, I will do my best to succeed.
2. I am open to cooperate with my colleagues from KLM (read Air France for KLM employees) when necessary.

Pre-Merger Identification ($\alpha = 0.83$)

1. When someone criticizes Air France (read KLM), it feels like a personal insult
2. I am very interested in what others think about Air France (read KLM)
3. When I talk about Air France (read KLM), I usually say “we” rather than “they”
4. When someone praises Air France (read KLM), it feels like a personal compliment
5. Air France (read KLM)’s successes are my successes.

Post-Merger Identification ($\alpha = 0.85$)

1. When someone criticizes Air France-KLM, it feels like a personal insult
2. I am very interested in what others think about Air France-KLM
3. When I talk about Air France- KLM, I usually say “we” rather than “they”
4. When someone praises Air France -KLM, it feels like a personal compliment
5. Air France-KLM’s successes are my successes.