The influence of national culture on cross-border M&A

Author(s): Marc Laneve, Leadership and Management in International Context
           Thomas Stüllein, Leadership and Management in International Context

Tutor: Prof. Björn Bjerke

Subject: Business Administration

Level and semester: Master's thesis, Spring 2010
Acknowledgement

First of all, we would like to thank our tutor Björn Bjerke and our Professor Philippe Daudi for helping and giving us significant advices, feedbacks and comments during the writing of our Master thesis, as well as all the teachers involved in the Master Programme for their contribution in developing our leadership skills.

Moreover we would like to express our gratitude to Linnaeus University for the financial support, allowing us to make essential travels for our thesis.

Finally, we would like to have a special thought to our families and friends, who gave us encouragements and support along our researches and the writing of our thesis.

Marc Laneve & Thomas Stüllein

May 2010
Abstract

In theory, the phrase “mergers and acquisitions” (abbreviated M&A) refers to buying, selling and combining different companies in order to gain improved financial performance, create a global presence, and face the global competitive market. Nevertheless, many researches have underlined the high rate of failure among M&A, and the difficulty to achieve expected results and synergies. Among the reasons of failure, many analysts have pointed out the determinant influence of the cultural aspect in the success or the failure of a cross-border merger. However, the cultural issue in M&A is often neglected and too less stressed.

In order to have a better understanding of the cultural aspect in the merger and acquisition process, and point out its influence on the merger process as well as the corporate culture, we first present a theoretical part introducing the cross-border merger and acquisition concept with the perspective of the national culture, and the role that leaders could play in order to limit the negative impact of culture and the clashes on cross-border M&A. Therefore, a part including three cases of “cultural failure” in the merger process illustrates the concepts explained in the theoretical part. Those well-known cases are: DaimlerChrysler, UpJohn & Pharmacia, and Volvo – Renault. The cases show how the cultural issue had been underestimated and had implied cultural clashes and extra-costs for the companies involved.

After concluding our findings, we end the thesis with a prospective part based on the possible evolution of the merger and acquisition market. Indeed, we believe that our research topic will gain importance in the future, and the influence of culture on M&A deals may increase.
Table of Content

1. Introduction ........................................................................................................................................ 1

2. Research Process ............................................................................................................................... 5

3. Theoretical Framework ....................................................................................................................... 11

   3.1. The Mergers and Acquisitions concept ......................................................................................... 11

       3.1.1 Types and Methods of M&A ................................................................................................. 11

       3.1.2 History of M&A .................................................................................................................... 12

       3.1.3 The occurrence of M&A ........................................................................................................ 15

       3.1.4 Motives for M&A .................................................................................................................. 16

       3.1.5 M&A process .......................................................................................................................... 17

   3.2. The cultural aspect in Mergers and acquisitions ............................................................................ 22

       3.2.1 Understanding Culture ........................................................................................................... 23

           3.2.1.1 Definition .................................................................................................................. 23

           3.2.1.2 The onion diagram ................................................................................................... 24

           3.2.1.3 Culture as mental programming .............................................................................. 25

       3.2.2 The interacting spheres of culture .......................................................................................... 27

       3.2.3 National culture ...................................................................................................................... 30

           3.2.3.1 Definition .................................................................................................................. 30

           3.2.3.2 The national determinants of management .................................................................... 31

           3.2.3.3 Hofstede’s theory on national cultures ...................................................................... 32

           3.2.3.4 Critique of Hofstede’s theory ................................................................................... 33

           3.2.3.5 Trompenaars’ cultural dimensions ............................................................................. 35

       3.2.4 Cultural clash and conflicts ....................................................................................................... 36

           3.2.4.1 Definition .................................................................................................................. 36

           3.2.4.2 Sources of cultural conflict ....................................................................................... 37

       3.2.5 Corporate culture .................................................................................................................... 38

           3.2.5.1 Definition .................................................................................................................. 38
3.2.5.2 Culture and the organization ................................................................. 41
3.2.5.3 Types of organizational cultures ............................................................ 42

3.2.6 Culture fit and acculturation ........................................................................ 43
3.2.6.1 Cultural incompatibilities ......................................................................... 43
3.2.6.2 Post-merger and acquisition cultural integration ........................................ 43

3.2.7. Culture integration strategies .................................................................. 47
3.2.7.1 MBI Model (Henry, Lane et al., 2005) ......................................................... 47
3.2.7.2 Culture Bridging (Chancel, Rodgers, and Raynaud, 2002) ....................... 48
3.2.7.3 The role of communication in the integration process .............................. 50

3.2.8 Cultural leadership ..................................................................................... 51
3.2.9 Recognizing the importance of culture ..................................................... 53
3.2.10 Influencing the cultural change ................................................................. 54
3.2.11 Consequences of cultural diversity in cross-border mergers and acquisitions ......................................................... 62
3.2.12 Summary of the theoretical part ............................................................... 64

4. Case Studies .................................................................................................... 65

4.1. The DaimlerChrysler Merger ....................................................................... 65
4.2. Pharmacia AB – Upjohn .............................................................................. 74
4.3. The Volvo-Renault case .............................................................................. 83

5. Conclusion ....................................................................................................... 87

6. Prospective researches on the topic ................................................................. 90
# Table of Figures

<table>
<thead>
<tr>
<th>Figure</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Figure 1</td>
<td>Topic definition process</td>
<td>5</td>
</tr>
<tr>
<td>Figure 2</td>
<td>Methodology</td>
<td>6</td>
</tr>
<tr>
<td>Figure 3</td>
<td>Thesis Structure</td>
<td>7</td>
</tr>
<tr>
<td>Figure 4</td>
<td>Theoretical framework</td>
<td>8</td>
</tr>
<tr>
<td>Figure 5</td>
<td>M&amp;A market development</td>
<td>12</td>
</tr>
<tr>
<td>Figure 6</td>
<td>M&amp;A process</td>
<td>16</td>
</tr>
<tr>
<td>Figure 7</td>
<td>The “Onion diagram”: Manifestations of culture at different levels of depth</td>
<td>22</td>
</tr>
<tr>
<td>Figure 8</td>
<td>Levels of “mental programming”</td>
<td>24</td>
</tr>
<tr>
<td>Figure 9</td>
<td>Interacting cultural spheres of influence</td>
<td>26</td>
</tr>
<tr>
<td>Figure 10</td>
<td>Two components of organizational culture</td>
<td>37</td>
</tr>
<tr>
<td>Figure 11</td>
<td>Four approaches to managing cultural diversity in cross-border alliances</td>
<td>45</td>
</tr>
<tr>
<td>Figure 12</td>
<td>The different natures of communication needs</td>
<td>48</td>
</tr>
<tr>
<td>Figure 13</td>
<td>Comparison of American and European managerial styles</td>
<td>74</td>
</tr>
<tr>
<td>Figure 14</td>
<td>Scores of Swedish and American culture in Hofstede’s scale</td>
<td>76</td>
</tr>
<tr>
<td>Figure 15</td>
<td>Sweden and France Hofstede’s cultural dimensions</td>
<td>83</td>
</tr>
<tr>
<td>Figure 16</td>
<td>Continental comparison of M&amp;A deals from 2005 to 2009</td>
<td>89</td>
</tr>
</tbody>
</table>
1. Introduction

“The merger was like two different species meeting each other,” said Magnus Lundberg, ex-head at P&U after he had been burned by tremendous cultural clashes during the merger between Swedish Pharmacia and American Upjohn (Flynn et al, 1997). The main idea of the merger was a highly ambitious cost saving plan that would cut $500 million of costs. In reality, cultural problems had approximately blown $7 billion-a-year during the two first years after the signature of the transatlantic merger (Friedman, 1997).

In theory, mergers, acquisitions, and joint ventures are means to create value by acquiring technologies, products, and market access, generating economies of scale, and creating a global presence (Miller and Fernandes, 2010). Most often, leaders and M&A teams tend to be more focused on closing the deal and the shareholder value, and integration teams tend to be more focused on the integration of structures, systems and processes. Besides this, there is not enough consideration and focus on how to integrate at least two cultures together. As former IBM CEO Louis Gerstner mentioned in his book, Who Says Elephants Can’t Dance, “Culture isn’t just one aspect of the game – it is the game…” (Bundy and Hukins, 2009). Indeed, an organization is nothing more than the collective capacity of its people to create value (Gerstner, 2002).

Merging two companies is not an easy task. In practice, there are several barriers to successful mergers and acquisitions that counteract possible value-added, economies of scale, and the possibility to extent the company’s presence globally. Among those barriers, culture has become one of the strongest barriers to effective integration, and is considered as the cause of 30 percent of failed integrations. Differences in companies’ culture make the integration process more difficult but not impossible. According to a 2004 transatlantic study of executives involved in M&A deals, 75 percent of them considered “harmonising culture and communication with employees” as the most significant success factor in post-merger integration. In 2006, in a paper from the Economist Intelligence Unit, 67 percent of survey respondents pointed out cultural integration as both the most important people issue and the most critical factor in a successful M&A deal (Bundy and Hukins, 2009). According to Hill (2005: 498) a lot of acquisitions failed because of cultural clashes between the acquiring and the acquired firm. However, an alarming study shows that 75 percent of top executives admit they have no plan to deal with cultural change related with mergers and acquisitions.
Moreover, 70 percent of them state that their company has not assessed its culture. Those figures show that top executives have indeed heard about cultural issues but are not doing anything to manage it (McGarvey, 1997). So, we may wonder why there are so many discussions and theories around this topic if most top executives are not taking concrete actions to manage it? Therefore, could we consider that there is not enough importance given to the cultural issue in cross-border mergers and acquisitions in practice like it is widely discussed in theory?

Increasingly, due to a globalization effect and the emergence of developing countries, many mergers and acquisitions are now cross-borders, which imply to give a lot of attention to national cultures, which corresponds to the habits, thoughts, beliefs that differentiate inhabitants from one country to another.

Moreover, the globalization of business over the past decades has pushed companies to be competitive at a worldwide scale. As even customers were going global, companies had to follow this trend and establish their presence globally, as well as reacting to the pressures of gaining economies of scale in a quickly consolidating global economy. Others factors such as deregulation, privatization, and corporate restructuring have speeded up the need for cross-border merger and acquisition operations.

Nowadays, companies are increasingly cooperating. Executives follow mergers, acquisitions, and joint ventures as means to create value by acquiring technologies, products, penetrating markets, achieving economies of scale, and setting up global brand presence. However, value is rarely created through mergers and acquisitions. Therefore, many factors have come out in order to explain the unachieved goals of a large amount of mergers and acquisitions. According to Chancel, Rodgers and Raynaud (2003), differences in organizational and business cultures, which are both influenced by their respective national cultures, have led to more complex activities and even more challenging. Culture is considered as the most complicated factor to manage and is one of the first reasons for failure in mergers and acquisitions.

Going global and working at a worldwide scale imply meeting and working with different cultures. Indeed, ways of managing, working, as well as norms, beliefs and values are different across the world. Dealing with those cultural differences is a hard task. Managing culture requires visible and active support and commitment of business leaders, and unfortunately only the ones that have been facing cultural problems in the past understand the
necessity to invest time and money in cultural integration and change management (Mercer, 2009).

Furthermore, culture is a very problematic concept because multifaceted, complex and tricky to measure, though too often underestimated and considered as a “soft” factor. Moreover, there are more than a hundred of definitions available for this term depending on the context, and the point of view studied. As a result, most acquiring companies have not yet established a structured process to effectively analyse, manage and integrate organizational cultures, though 75 percent of executives see culture as a key factor in creating value through alliances and cross-border operations (Mercer, 2009).

In the case of cross-border mergers and acquisitions, many cultural conflicts often arise regarding the corporate culture, but also the national culture, which has an influence on the corporate culture depending on the country in which the company evolves. This is why intercultural management is required in order to manage cultural differences within the organization and make the merger or the acquisition achieves better goals. Intercultural management can be described as the process of managing differences between cultures in an organization (Jacob, 2003).

Often, cultural management negligence in international projects results as losses for many companies. This statement is even more obvious when we look that statistically over three quarters of cross-border acquisitions and alliances fail because of cultural differences. Therefore, it is primordial to consider the culture aspect carefully while dealing with cross-border M&A, alliances or ventures. Intercultural management is there to solve and prevent companies from problems arising from cultural diversity. (Merkens, n.d).

So, in this thesis we point out the influence that culture has on cross-border mergers and acquisitions, and more specifically the influence of the national culture. In this context we look at the direct influence national culture has on M&A as well as the indirect influence through the corporate culture for instance. Furthermore we look at the past trends and the current development in the merger and acquisition market in order to make statement about the increasing importance and the relevance of our topic in the future.
"Are you thinking what I'm thinking?"
2. Research Process - Methodology

This chapter goes about the methodology used during the writing of our Master thesis, and the different parts that constitute it. This methodology chapter is essential in order for the reader to understand how our thesis has been constructed, and see what perspective has been taken to write it.

➢ The topic

![Diagram of M&A, National Culture, Corporate Culture, Change Management, and the influence and importance of national culture in the success or failure of M&A]

Figure 1: Topic definition process

• Finding the topic

First, several large topics were at our disposal. However the one that retained the most our attention was related to “Change management”. This topic really seemed appealing to us that we started to gain more knowledge about it and make some prospective analysis. Afterwards, a more precise topic came out with the application of the change management topic in the case of mergers and acquisitions. After many readings and researches about the mergers and acquisitions topic, we found out that most of them were considered as failure and were not
capable to reach their goals. This surprising report caught our attention and we tried to get more information and understanding about it.

Many reasons for unsuccessful mergers and acquisitions emerged. However the cultural aspect was one of the most tricky to understand because it was recognized by many authors but could not be quantified and there was rarely a concrete explanation of its influence on the results of cross-border M&As. Moreover, culture can be studied from different perspectives in the business world such as corporate and national culture for instance. The reason why we decided to take as perspective the national culture is that national culture is strongly present in individuals, on contrast to corporate culture. Additionally, national culture has also a large influence on organizations. This is how our thesis came to talk about the importance and influence of the national culture while two different cultures meet and are merged during a cross-border merger or acquisition.

- **Methodological study**

![Methodological structure diagram]

Figure 2: Methodological structure

- **Methodological approaches**

In order to find the right methodological approach for our thesis, we had a thorough look in the book of Ingeman Arbnor and Björn Bjerke (1997) “Methodology for creating business knowledge”. Furthermore during the preparation of our thesis, we had several lectures, held by Björn Bjerke, about methodology and the three views described in his book. We will give a short summary of all three methodological approaches to be able to explain the choice of the view we finally considered as the most appropriate one.
The Analytical Approach: The aim of this approach is to create an understanding of reality. Moreover, there exists no dependence between subjective and objective facts in this approach. The outcomes of this methodological approach are rational models and cases, which help the researcher to find the relation between the causes and the effects. Although this methodological view is based on hypothesis, reality creates subjective as well as objective facts, whereby subjective facts are considered as being influenced by our own opinion and understanding, while objective facts are connected to real situations (Arbnor and Bjerke 1997).

The Systems Approach: This approach creates either an understanding or an explanation of the reality. Reality is considered as a whole, a system, in which every member and every relation between the components of this system matters. Every connection is seen as an own, invisible part of the system. As a result, it is possible that the sum of the system itself, differs from the actually sum of parts within the system. Consequently objective and subjective facts are explained or understood as systems (Arbnor and Bjerke 1997).

The Actors Approach: The aim of this methodological approach is to create an understanding of reality and realize a social structure. In this view, emphasis is put on the “Actor”. He is reflecting and creating knowledge while actually taking part in the organization. To be able to create understanding and new point of views, the “Observer(s)” is/are needed (Arbnor and Bjerke 1997).

For our research just two of these approaches are qualified. Since the beginning we were sure that we won’t take part in a company actively or as observers, what made the actors view inappropriate. In the early stages of our research process we identified the analytical approach as the most suitable one. But due to some changes and specifications in the research topic we understood more and more the importance of national culture in the merger and acquisition process. Besides the obvious influence of national culture we also realized that there is more connection, which is not so obvious to recognize. There we understood that for our understanding and further to be able to explain our research topic we need to understand the whole system and all the connections within it. Furthermore we realized that the outcome of our thesis wouldn’t be a rational model what explains the reason for failure for instance; it
will be the awareness and the insight that every case is unique as well as an understanding of the system as a whole. Consequently we decided to use finally the system approach for our research.

- **Case studies**

The process of the master thesis started with the research of several famous case studies in M&A. The reason for well-known cases concerns the facility to reach significant information in order to realize a reliable analysis of it. Those cases had also to be between different countries, in other words we were seeking for cross-border operations in order to analyze the multicultural aspect of the case studies.

The cases we have analyzed are:

- Daimler Benz - Chrysler
- Renault – Volvo
- Pharmacia – Upjohn

- **Data collection**

The data used during the research process were principally secondary data. Indeed, the information included in the thesis comes from newspapers, books, and scientific articles for the cases. Regarding the theoretical part, it has been created with theories from books and scientific articles.

While analysing the case studies, we have always kept the perspective of the national culture, which is our main focus in the thesis. The idea was to consider the impact and the influence that the culture, and principally the national culture have on the results of a merger or an acquisition.
Figure 3: Thesis Structure

First, the theoretical framework takes place in order to give the reader a deeper knowledge and understanding about the merger and acquisition concept, and other cross-border alliances. Following it, theories about the term culture, in which the national and corporate cultures are distinguished. The theoretical framework also emphasises how to solve those intercultural problems in the M&A context.
Then, a part about the case studies is introduced with each case studied separately. Finally, a final conclusion gathers all the findings from the cases and relations with theories in order to end the thesis.
3. Theoretical Framework

3.1. The Mergers and Acquisitions concept

3.1.1 Types and Methods of M&A

Mergers and acquisitions are broadly classified into various types. While the major types are normally considered as horizontal, vertical and conglomerate (Green, 1990; Gaughan, 2007), other researchers refer additionally to concentric mergers as a different type of mergers and acquisitions (Straub, 2007).

The horizontal M&A type is subdivided in two more groups. The first group covers mergers within the same product line, but allocated to different countries. Consequently the acquiring firm gains market shares and power through the merger in new geographical areas, for instance. The second type consists in mergers of companies with slightly different product lines. As a result, the acquiring firm increases its product line through the merger. However horizontal mergers are highly controlled by market and governmental regulations, which limit the value creation in some cases such as restraining the formation of monopolies (Green, 1990; Straub, 2007).

On contrast, in a vertical merger, companies do not acquire firms with the same product line, but firms connected to their own production chain. Also this type of merger can be subdivided into two different groups; merging vertical backwards or forwards. The purpose of the forward vertical acquisition for the acquiring company is to have a sure buyer to which it can provide its own products. On the other hand, acquiring vertical backwards means to ensure a constantly guaranteed supply of raw materials, which are needed for the acquirer’s production. In general a vertical merger leads to a raise of the acquiring company’s increment value (Green, 1990; Straub, 2007).

A concentric M&A affects the knowhow, such as production technology and delivery service.
as well as improvement and research capabilities, of the participating companies (Straub, 2007). Especially firms from emerging countries show big interest in the knowhow of enterprises from developed countries (Rothenbuecher & von Hoyningen-Huene, n.d.).

Furthermore an M&A is called conglomerate, if there is no connection, neither in the production line nor in the production chain, between the involved companies. This merger can occur mainly because diversified companies try to reduce their risk. They aim to build an efficient distribution network as the fundament for their strategy (Green, 1990).

3.1.2 History of M&A

The history of merger and acquisitions goes back more than 110 years and is divided in different periods or so-called waves (Sudarsanam, 2003). While most economic experts speak about five major M&A waves in the history of the US and later the UK and Western Europe, others, like Moeller & Brady (2007), as well as we do, refer also to a sixth wave which affected a big range of economies all over the world.

The First Three M&A Waves

The first M&A wave took place in 1890 – 1905 after a long stagnation of the economy. The mergers were mainly horizontal, what made the concerned industries extremely concentrated. Hence that wave is also considered as the time of merging for monopoly. The second wave came up in the 1920s after the First World War and a market collapse. The monopolies, which developed during the first wave, were forbidden and consequently more vertical than horizontal merger were accomplished, which confer the second wave the title of merging for oligopoly. The third wave of M&A started to evolve after the Second World War in the 1960s. The aim of mergers at that time was mainly growth and therefore the relation between the companies’ businesses did not really matter. For this reason the period of these conglomerate M&As is also generally known as merging for growth. In comparison with each other, all these three waves show similarities. All three of them emerged in a persistent period of economic prosperity and also mainly after tremendous changes in the economic infrastructure, such as the introduction of an electricity grid or a railroad system (Sudarsanam, 2003; Moeller & Brady, 2007).
The Fourth and the Fifth Wave

The fourth wave occurred after a deep recession in the middle of the 1980s and was a bit different compared to the other three waves before. This wave started to concern also Europe and was supported by a trend of divestitures. At this time the word “corporate raider” was introduced in the business world. A lot of hostile takeover bids were made by companies, which were behaving like raiders, because they sold off different parts of a company after acquiring it. Also the average size and value of the acquired companies increased strongly among others due to leverage buyout as a financial mechanism, which involved big debts. With a six times bigger added value than the wave before, the fifth wave was in terms of value and number of deals by far the biggest at this moment. This wave emerged in the 1990s and was strongly supported by the introduction of new technologies, such as cable television, satellite communication and Internet. Especially, technology-based industries gained fundamental growth at that time. Furthermore this period was shaped by a reorganization of major industries like the automobile and the food industry as well as the bank and finance sector, what led to significant deals for the M&A history, like Mannesmann–Vodafone or Daimler–Chrysler. Additionally, governmental regulations against cartelization and deregulations in some markets contributed to the huge dimension of this wave (Sudarsanam, 2003; Moeller & Brady, 2007).

The European Waves

As mentioned before, these waves originated in the US. But the EU shows similarities in the M&A development. The European economy had displayed only two waves, but the connections with the American waves are undisputed, also because the timeframes of the two European waves match quite well with the forth and the fifth wave in the US. Beside the facts responsible for the occurrence in the US and of course the globalization, which has created dependence between the EU and the US, the EU waves were influenced by the developments on their own continent, too. The late 1980s and the 1990s were quite turbulent times, which evoked a lot of changes in the political, the economic as well as the social area. Hence the reunion of Germany in 1989 - 1990, the foundation of the European Union in 1992 and the introduction of a common currency, the EURO, in 1999 are, among others, important issues for the M&A development on the continent. The UK was ahead in terms of M&A activities, compared to the other European countries, not at least because of their longer history of
merger transactions. In the United Kingdom M&A activities are registered already in the late 1890s and 1920s. Also for that reason the UK were involved in 26% of all international mergers with European involvement in 1999 (Sudarsanam, 2003).

*The Sixth Wave – A Global Wave*

The sixth M&A wave occurred between 2002 until the financial crises hit the world economy in the end of 2007 (Moeller & Brady, 2007). In this period there was an apparent upward tendency for M&A within developed as well as emerging countries. In terms of value and volume of M&A deals, the sixth wave was the biggest one compared to the waves before. This can be explained through increasing globalization, which has created much more dependence between countries all over the world as well as through a tremendous change of the type of acquisitions in the last 10 years. (Rothenbuecher & von Hoyningen-Huene, n.d.). While in 1999, after the Asian financial crises Western companies, which were in better financial shape, hence they were not directly concerned by this crisis, acquired well know Asian companies for dumping prices (ALB, 2009), emerging countries started to become an equal market player and began also to look for acquisitions in the developed countries in the last years (Rothenbuecher & von Hoyningen-Huene, n.d.).

Figure 5: M&A market development

![M&A market development graph](image)

Source: (Rothenbuecher & von Hoyningen-Huene, n.d.)
In the period between 2002 and 2007 the USA was the most active country in acquiring other enterprises, as well as the biggest target for acquisitions. Almost every fifth acquisition of firms in emerging countries was done by the US. On the other hand the USA was the target in around 23% of acquisitions through companies from emerging countries. In the same period, India was the major acquirer in emerging countries, followed surprisingly by Malaysia. This can be explained through a big support of the government, such as tax incentives, in order to invest in high tech business deals and to strengthen the export. On the third place behind these two was China. Contrary to them, the Chinese government did not prepare the way for acquisitions done by private companies. Sometimes deals also had to challenge a lot of governmental obstacles. Nevertheless the governments of emerging countries, also the Chinese government, had and still have a big interest in acquisitions in developed countries in order to get access to the developed market. On the other side, China was by far the biggest target for acquisitions through companies from developed countries. The second most companies were acquired in India between 2002 and 2007, but closely followed by a lot of other countries in a widely spread market. Hence cross-border acquisitions enlarged around four times faster than acquisitions within either developed or emerging countries and led consequently to the again higher amount of value and volume of M&A deals in the sixth wave (Rothenbuecher & von Hoyningen-Huene, n.d.; Moeller & Brady, 2007).

Besides the increasing globalization and the influence of the fast growing economy of the emerging countries, the sixth M&A wave was characterized by new regulations, caused by the corporate governance scandal in the beginning of the millennium. In this period, strategic issues as merging for new market access, improved deals selection, better deal governance and post-merger integration such as the influence of culture on the M&A process were valid as the key for success (Moeller & Brady, 2007).

3.1.3 The occurrence of M&A

There are various theories for the occurrence of these M&A waves. According to Gorts’ *Economic Disturbance Theory of Mergers*, waves always emerge in periods of strong growing economy and a rise in the stock market in the US and Western Europe. To a greater extent, a rising economic activity creates an imbalance in the product markets. Investors have different estimations for the future demand and therefore some of them evaluate the target companies higher than the others. M&As are the result of the effort to benefit from these
value dissimilarities. If then leading companies make the first M&A movement, the competitors will follow them for fear of being left behind and in this way the impulse for a wave is created (Sudarsanam, 2003; Gort, 1969).

Political, Economic, Social and Technical issues are taken into account in another theory, the so-called *PEST model*, which is used to describe the external environment of a company and its constraints. As we mentioned before, technological breakthroughs, such as railway system, electricity grid or evolution of the Internet had a tremendous influence on the development of these M&A waves. Also political influences like changes in the tax regime or in pension policy of the government are stimulators for the occurrence of a wave. Germany, for instance, announced capital gains tax reliefs for big banks and insurance companies such as Deutsche Bank or Allianz, to react against the slowdown of its acquisition activities. The pension policy, which we mentioned before, is on the other hand also influenced by social issues as the ageing profile of the population. Hence social issues as well as economic issues, such as interest rate or inflation rate, often influence the emergence of a wave indirectly through governmental regulations (Sudarsanam, 2003).

### 3.1.4 Motives for M&A

In the literature, it is possible to find a huge number of theories related to acquisition motives. Most of those theories are closely related to each other and give most of the time similar motives for acquisitions. Ojanen et al. (2008) have classified the motives of an M&A with the perspective of an acquirer company:

- **Expansion and development**
  - Geographic and/or product expansion
  - Client following
  - Re-deployment of resources to or/and from target

- **Increase internal efficiency**
  - Economies of scale

- **Improved competitive environment**
  - Increase market share and power
  - Gain size to face global competition
  - Defense mechanism
- Acquire a competitor
- Create a barrier to market entry
- Decrease industry overcapacity
- Benefit from cost disparities (e.g. labor)

- **Financial motives**
  - Diversify risk
  - Invest in fast-growth markets
  - Turnaround of a failing target

- **Personal motives**
  - Increased sales and asset growth
  - Gain personal power and prestige
  - Cashing in on short-term stock market reactions (incentive system)

- **Others**
  - Benefit from exchange rate differentials
  - Bypass protective tariffs, quotas, etc.

Obviously, cross-border acquisitions may be motivated by more than one of those motives. Those motives may also vary depending on the industry and the firm objectives (Ojanen et al. 2008). We can notice that there is a small disparity in the intentions of an acquisition depending on the area or the country where the acquiring company is located. Indeed, in contrast to companies in developed countries, the purposes of companies in developed countries are mainly cutting cost and creating growth possibilities. Therefore they are looking for companies in the fast growing emerging markets in order to get access to these markets and restructure the organization in some parts. In contrast to these, the main reasons for companies from emerging countries to look for acquisitions in developed countries is the need for fast access to new technologies and productions. Especially in the automobile industry Chinese carmakers try to get access to the Western technologies through acquisitions (Rothenbuecher & von Hoyningen-Huene, n.d.).

### 3.1.5 M&A process

The M&A process is divided by many authors into different stages, which may vary depending on the author. Considering different theories about the merger process, we came upon a model which we believe match the most with our understanding of the process.
However, other merger processes exist and merging companies do not go compulsorily through all the stages of the process. We have thus here a model divided in three different major categories; Pre-merger process, during the merger activities and post-merger integration. Each of these stages can be subdivided again into two different steps. Hence the M&A process consist in six main steps. (Paulsen & Huber, 2001)

Figure 6: Merger and acquisition process

- **Pre-merger Process**
  - Research/Decision
  - Strategy

- **During the Merger Activities**
  - M&A Selection
  - Due Dilligence

- **Post Merger Integration**
  - Closing
  - Post-merger Integration

**Research and Decision**

The pre-merger process is the timeframe before the announcement of the deal and involves a long process of decision-making. First of all the decision for an acquisition must be made. This will be done normally by the CEO of the company in collaboration with the top management team after thoroughly analyzing the opportunities available (Kusstatscher & Cooper 2005). But as the game theory of Nash explains, a merger in most of the cases creates a reaction of the other market players. Therefore, the top management and the consultancies
must be aware of the reaction following the decision of a M&A deal of the own company. Nevertheless, if the decision is considered as right, a long list of potential targets will be created in order to get an overview and more information on the companies fitting with the acquirer’s strategy (Sudersanam, 2003).

- **Strategy**

In this stage a first strategy concept and a business plan will be developed in order to reduce the number of potential candidates. Due to the same reason a first evaluation of financial and strategic fit will be done. Additionally, a strategy depending on the complexity of the acquisition, the strength as well as the ambitions of the target companies and their managers will be developed in this period. Nevertheless, beside the importance of the further strategy, the CEO and the negotiation team should be open-minded for new opportunities and also to be flexible to react to new problems occurring out of the negotiations with the potential targets (Sudersanam, 2003).

- **M&A Selection**

Ongoing the potential candidates have to be screened and a final group of maximal five target companies should be selected. This will be done through two main criteria in addition to a direct contact. The first criteria regards choosing the final target company depending on the forecasted benefits of an acquisition of the observed company that could be realized and the strategic matches in terms of products, markets, geographical position. This stage consists mainly in bidding and negotiating between the acquiring and the target company. Therefore confidential agreements are imperative (Kusstatscher & Cooper 2005).

- **Due Diligence**

In the so-called due diligence process the financial shape and the potential strategic match of the target company will be checked more in details by a selected team of accountants, consultants and lawyers (Kusstatscher & Cooper 2005). The biggest problem of the due diligence process is, that on the one hand the target company wants the acquiring company to feel comfortable with the postulated price and the quality offered, but on the other hand the target company does not want to present all information about financial, marketing or sales aspects for fear of a late failure of the deal. But exactly because these secret information are disclosed in the due diligence process, the introduction of an interim step, in which the
acquiring company gets access to certain information about the target company, can be helpful. There is also the possibility of a nondisclosure agreement, which protect the secret needs of the involved company. Nevertheless every time there is not all information honestly delivered, bad surprises can occur later in the deal (Paulson & Huber, 2001).

During the merger, it is crucial to find the right balance between emphases to speed and diligence in the decision making process. The consequences of moving too slow as well as doing the wrong decisions mean losing a lot of money and reducing shareholder value.

- **Closing the merger**

  The timeframe to close the merger may last few hours until a few weeks depending on the complexity of the deal and the accuracy of the work done before. Final negotiations about the acquisition price and a binding letter of intent will be signed together with the closing contracts. Nevertheless, mistakes can be made during the final meeting, where the contracts are signed, which may cause delays in the closure or in the worst case the failure. Hence, according to Reed, Lajoux and Nesvold (2007), there are several points to keep in mind for the closing meeting:

  - All lawyers and other people involved in the deal, such as consultants, should be present all the time during the final meetings, in case of changes through last minute documents.
  - All time constraints such as desk opening hours of involved banks for instance, must be taken into consideration and if necessary, in consultation with them, extended.
  - Emphasis on speed should not influence the quality. Every single change made in the closing meeting, caused by late arrival documents or any other reason, must be thoroughly proved in all layers concerning the deal.

- **The Integration process**

  As we mentioned before, each of these six steps is very important and requires a maximum of concentration to succeed in merging two companies. Therefore, after closing the merger, the final goal is not reached yet, and the integration process must be treated with the highest possible amount of concentration and accuracy. Indeed, mistakes in the integration process of a M&A are one of the main reasons of failures in acquisitions. Most time the post-merger
integration process executes the plans that have been done before the integration stage. Consequently there are different steps which are mainly planned before, but should be taken into consideration and also controlled to make the acquisition successful. (Paulsen & Huber, 2001)

First of all an integration plan has to be developed, including every step, starting at the day of signing the contracts. The plans must be already done until the final signatures will be given, otherwise there will be too much time wasted.

It can be also helpful to have an integration manager. The task of the manager is to focus only on aspects concerning the integration of the different cultures, both, national and corporate culture. He/she also has to evaluate the employees of both companies as objective and fair as possible. Therefore he/she should not have been involved in one of the companies before, to maintain the credibility towards the workforce. Furthermore the integration manager must be involved in all activities and information from the first day of the merger decision. (Light, 2001)

Decision about the top management and the workforce has to be done. There must be a strong management structure in order to create a secure environment for the workforce, because already the announcement of the deal creates a lot of uncertainty between all the layers of the company and led to outflow of the talents who are needed for the future (Light, 2001).

The different corporate and national cultures bring a lot of risk with them, because they can become easily a reason of failure for the deal if they are not handled in the right way. Therefore it is important to create as fast as possible a new common culture, which helps to understand the cultural differences between each other. Succeeding in merging two cultures together can be a big opportunity to create unforeseen added value. Therefore communicating is one of the most important points in the integration process. Bringing the different cultures together requires a big communication effort. Communication takes place in every step from the beginning of the M&A process (Ashkenas & Francis, 2001).
3.2. The cultural aspect in Mergers and acquisitions

The term culture refers to national and organizational cultures, as well as the individual culture. It is significant not to neglect those three different types of culture while preparing and executing a merger, an acquisition or a strategic alliance at an international level, though the individual culture is less significant and too large to be taken into consideration effectively in this context. Indeed, each company has its own values, vision, norms and working style. Additionally, due to a globalization effect and the emergence of developing countries, many mergers and acquisitions are now cross-borders, which imply to give a lot of attention to national cultures that corresponds to the habits, thoughts, beliefs that differentiate inhabitants from one country to another. According to Walsh (cited in Hill, 2005: 498) “After an acquisition, many acquired companies experience high management turnover, possibly because their employees do not like the acquiring company’s way of doing thing”. It was the case in the DaimlerChrysler case, where many American managers left Chrysler because of incompatible management culture and an over-dominance of the German management in the merged company (Waller, 2001). Those differences between corporate or/and national cultures can lead to cultural clashes during the merger process and generate a loss of value, talents and expertise for the company.

Additionally, the integration strategy plays an important role in the success of a merger, and many acquisitions do not achieve the forecasted goals and fail due to attempts to realize synergies by integrating the operations from both companies while meeting barriers and taking more time than expected (Hill, 2005). This is partly due to differences in company and national cultures, while each company wants to keep its identity.

In the same context, according to Hill (2005) and Hasperslagh and Jemison (1991), another reason for failure in mergers and acquisitions is an inadequate pre-acquisition screening and preparation, which is primordial. The targeted company must be analysed in its culture,
management style, as well as differences in national culture. Companies have to understand that “the idea of a corporate global village where a common culture of management unifies the practice of business around the world is more a dream than reality” (Kanter, 1991: 155) and cultural differences will always persist. In some cases, Hill (2005) advises to acquire a firm that has an antagonistic organizational culture to the acquiring firm. However, this is not always possible and an integration strategy will be required.

This theoretical part will give an insight regarding the cultural aspect of mergers and acquisitions and help to understand the role that national cultures, and the differences resulting from it, have on the merger and acquisition process, and see what sort of relation exists between national cultures and the change following a M&A.

3.2.1 Understanding Culture

3.2.1.1 Definition

There are many definitions of the term culture given by anthropologists and sociologists, and it is difficult to establish a single definition. In their book treating about intercultural communication, Rogers and Steinfatt (2004) defines culture as “the total way of life of a people, composed of their learned and shared behaviour patterns, values, norms, and material objects.” However, culture is a very general concept and the definition varies depending on the use and the environment in which we observe it. Culture is not only about nationalities and ethnic groups, but it concerns also communities, organizations, and other systems. Indeed, culture is a complex set of connections and each person belongs to several cultures at the same time, where each culture has subcultures (Helgesson, 1996).

In their well-published book “Strategy: Process, Content, Context”, De Wit and Meyer (1998) take an international focus to different business issues and define culture as “a shared set of norms, values, beliefs, and expectations. This shared set of norms, values, beliefs, and expectations is developed over time and passed down or forward through the generations of managers.” (De Wit and Meyer, 1998: 466). In an acquisition, culture is often acquired as a whole though it may also develop slowly during and after the acquisition process. Companies involved in a M&A may have different information and decision processes and incentive and reward systems. The most significant point to indentify is not if the cultures are different or
similar but whether the changes necessary to support the strategy will lead to conflicts in both cultures (De Wit & Meyer, 1998: 466).

Well-know anthropologists, Kluckhohn and Kelly (1945: 97) have defined the term culture as “all the historically created designs for living, explicit and implicit, rational, irrational, and nonrational, which exist at any given time as potential guides for the behaviour of men”.

Furthermore, Kotler (1991), well known as consultancy of big companies such as IBM, General Electrics and Coca Cola, explains that: “The society that people grow up in shapes their basic beliefs, values, and norms. People absorb, almost unconsciously, a world view that defines their relationship to themselves, to others, to nature, and to the universe”.

In order to get a complete picture of the society to which a culture belongs, anthropologists have created “cultural schemes” which involves all the cultural components. This scheme helps anthropologists to study the varieties of culture and tries to understand them (Cateora, 1991: 73):

1. Material culture, technology, economics;
2. Social institutions, social organization, education, political structures;
3. Humans and the universe, belief systems;
4. Aesthetics, graphic and plastic arts, folklore, music, drama, and dance;
5. Language.

**3.2.1.2 The onion diagram**

According to Hofstede (2001), expert in the field of culture and highly quoted in many books, cultural differences appear in several ways such as symbols, heroes, rituals, and values.

Figure 7: The ‘onion diagram’: Manifestations of culture at different levels of depth.

Source: Hofstede, 2001, p:11
Symbols are words, gestures and pictures or objects that hold a particular meaning only recognizable by those who share the culture. This category includes words in a language or jargon, as well as dress codes, hairstyles, flags. New symbols can be developed and old ones disappear (Hofstede, 2001).

Heroes are persons, alive or dead, real or imaginary possessing characteristics highly prized in a certain culture, and who serve as models for behaviour (Hofstede, 2001).

Rituals are collective activities, technically unessential in reaching desired ends, but socially essential in a culture. Rituals include ways of greeting and paying respect to others, including social and religious ceremonies for example (Hofstede, 2001).

Symbols, heroes, rituals are considered as practices. The core of culture is shaped by values. Values are broad tendencies to prefer certain states of affairs among others. Values are feelings with an arrow on it, which have a plus and a minus side (Hofstede, 2001). For example, values deal with evil vs. good, dirty vs. clean, irrational vs. rational, abnormal vs. normal, etc (Hofstede, 2001).

Values are one of the first things that children learn implicitly and unconsciously. Because acquired early, many values remain unconscious to those who hold them. Consequently, they cannot be discussed or observed by outsiders, but only be deduced from the way people behave and act under various circumstances (Hofstede, 2001).

3.2.1.3 Culture as mental programming

Individuals are carrying “mental programs”, which are developed in the family during the childhood and are reinforced in schools and organization afterwards. Each individual has a unique mental programming that is only partly shared with others. Though it is hard to draw precise borderlines between the different levels of human programming, mental programs can be divided in three levels (Bjerke, 1999: 7-9):

The universal level is the most basic level of programming. It is shared by all human beings, or almost all of them. It involves the biological system of the human body, as well as different expressive behaviours such as laughing and crying, and also associative and expressive behaviours. Universals can also be seen as generalizations that are present in all cultures.

The individual level of human programming is the unique part of the person. There are no two people exactly programmed. This level embodies the personality of the individual.
The third level is the *intersubjective*, this cultural level is where most of mental programming is learned. This level is shared by individuals that went through the same learning process and between people that identify themselves as its members, even if they do not have the same genes. These collective programmes are transferred from generation to generation through roots, societies, organizations and groups.

Figure 8: Levels of “mental programming”

![Levels of “mental programming”](image)

Source: Bjerke, 1999: 7

Culture is a collective phenomenon, because it is shared with people who live or lived within the same environment, which is the place where it was learned. Culture is something that is learned and not inherited. It is created through one’s social environment and not part of one’s genes. As showed in the figure above, culture has to be distinguished from *human nature* and *individual’s personality*.

Nevertheless, humans create culture. Each group or population builds its own way of life, with values, norms, behaviours, and material objects that they feel fit the best to their situation. Culture is stored in individual human beings, with beliefs, attitudes, and values. Similarities in the belief systems are strong between members of a given culture. Those beliefs represent the individual perception of the outside world and are shaped by the individual’s culture (Rogers & Steinfatt, 2004: 81).
*Attitudes* are internal events and not directly visible by other people. They are emotional responses to objects, ideas, and people. While people are expressing their opinions, speaking, and engaging in other behaviours, they do it on the basis of their attitudes and beliefs. Attitudes and beliefs are internal and cannot be directly observed. However, it is possible to induce them by observing what people say, do, and while they interfere your attitudes and beliefs (Rogers & Steinfatt, 2004).

Cultural *values* involve judgements, and allow the individual to consider what is good and what is bad. Values are also normative, meaning that they state or imply what should be. Many attitudes are based on cultural values. For example, freedom is a dominant value in the United States, while in other countries it is a value among others. The meaning of a value differs across cultures (Rogers and Steinfatt, 2004).

Additionally, *norms* are “the established behaviour patterns for members of a social system” (Rogers & Steinfatt, 2004:85). An individual is socially punished if a norm is violated because the expectations of the system were not fulfil. For instance, eating with the left hand in Saudi Arabia is a serious violation to social norms because the left hand is considered as unclean (Rogers and Steinfatt, 2004).

### 3.2.2 The interacting spheres of culture

Culture is everywhere, but there is no obvious or natural level of analysis from which to observe it (Van Maanen and Laurent, 1992). The influence of culture on business practices can be observed in several spheres. These cultural spheres of influence interact between each other in a complex way, which limit the creation of successful recipes for doing business in a country.

 Indeed, culture can be discovered at many levels (Schneider and Barsoux, 2003):

- National cultures and regional cultures within nations
- Industry cultures
- Corporate cultures and subcultures
- Professional culture
- Functional culture
The main challenge is to find out which dimensions of culture are relevant, assess their possible impact, and think up strategies for using them in an ingenious way.

Figure 9: Interacting cultural spheres of influence

![Interacting cultural spheres of influence](image-url)

Source: Schneider and Barsoux, 2003: 52.

The need to diagnose culture is clearly relevant in mergers and joint ventures, because managers from different countries, industries, and companies need to collaborate to achieve the benefits and goals from the strategic alliance. The cultural spheres of influence and their interactions give an insight to the impact of culture on cross-border management.

Each sphere of influence possesses its own set of objects and behaviors, beliefs and values, and underlying assumptions. They have their own solutions to problems of external adaptation and internal integration. Those various solutions may coincide or clash. All the spheres may influence the business at hand to some extent (Schneider and Barsoux, 2003).

- **Industry culture**

The industry influences the culture of an organization evolving within this industry. For instance, the practices in decision-making, products, regulations, and technologies are not the same in the pharmaceutical industry and the automotive industry.
- **Professional culture**

The professional culture regards the mobilization of knowledge, which brings together the application of practices and ways of working accumulated in the work context experience.

- **Functional culture**

Within a company, different departments have different cultures because of the environment in which they evolve and tasks they are executing. For instance, the marketing department does not have the same perspective and point of view as the financial department concerning the launch of a new product.

- **Company culture**

This cultural part is at the intersection of the other spheres, and finds its influences in the company founder(s), its leaders, the administrative heritage and its stages of development. For example, a start-up company does not have the same culture as a multinational company.

- **The National/regional culture**

In their book about managing across cultures, Schneider and Barsoux (2003) emphasize on how national culture impact on managers, and identify regional cultures as differences within countries and similarities between countries (Scandinavia for instance). It is significant to identify both because it helps to appreciate why certain industries are successful in different regions and why alliances partners and acquisitions should be more wanted across some borders than others.

The evolution and delimitation of regional cultures has been done through geography, history, political and economic forces, language and religion. Those regional identities may sometimes compete against the national identity. Differences may also appear between companies located in cities and others from the countryside within the same country. Those particularities have an influence on the corporate culture regarding its values and practices.

Moreover, similarities appear between regional cultures located in different countries. For instance, in Belgium, managers, French or Flemish speaking, seem to have more in common with respectively their French and Dutch neighbors, than between each other.
3.2.3 National culture

3.2.3.1 Definition

Among many different definitions available, national culture could be defined as “the collective programming of the mind which distinguishes the members in one human group from another” (Hofstede, 1991: 21). Culture represents the way people interact in a group with each other or react with an external outsider. The national culture relies people upon common history, beliefs, values that are specific to their culture.

Looking at management literature and management theories, they are usually from a Western perspective and presume that they are universally applicable. However many differences can be established between national cultures because those cultures are shaped by common experiences, beliefs and organizations, which are also shaped according to national values and orientations. As a result, it may give a unique national character that is more apparent to foreigners because nationals are usually not conscious themselves of their own culture. As a result it is essential for a global organization to understand how national differences influence relations between headquarter and subsidiaries for instance. A reason is that different cultures prefer different rules and behaviours or procedures, and are not willing to change their way of doing things, which are the best way to do it in their mindset. Therefore, while operating in a merger or acquisition, it is imperative for the acquiring company to understand the national culture of its target because it will greatly be helpful during the acquisition process while negotiating and start working together, as well as in the post-acquisition stage while the acquirer have to plan the integration of its management system as well as shaping the corporate culture together (Schneider and Barsoux, 2003).

Organizations can be seen as tiny societies with a distinctive social structure including a set of implicit basic norms, values and assumptions, which are reflected in a variety of patterns of action. Even if it is hard to get a deep socially shared understanding in an organization, culture plays an important role in overseas business success for instance. Therefore the cultural aspect is important at the business organizational level (Schneider and Barsoux, 2003).

What influences the most a company culture is its broader social and business environment in which the company evolves, and the company’s corporate culture reflects, to a large extent, the broader national culture, of which the company is part (Schneider and Barsoux, 2003).
National culture is present in patterns of lifestyles in a specific society. Corporate activity and national culture are intimately related, so that national cultural activity and understanding are primordial to organizational activity. Indeed, the culture of a nation where a company is established affects many business variables different from nation to nation, on which it has consequences. For example, differences in the organizational configuration, work structure and coordination, as well as in the career system will be different from a country to another. This is why it is important to study differences and variations in management, practices and attitudes across countries (Schneider and Barsoux, 2003).

3.2.3.2 The national determinants of management

According to Schneider and Barsoux (2003), national culture has one of the most significant influences on management style, but too often ignored. A national culture is present in companies in different ways, and among those ways, in artifacts and behaviors. Schneider and Barsoux (2003) describe five principal aspects of corporate culture, influenced by national cultures:

- **Architecture and design**: The workplace can take different shapes such as open doors and closed desk, with different areas depending on your status in the hierarchy like in Japan.
- **Greetings rituals**: Differences are perceptible in each country. For example, the French used to greet each person instead of doing general greetings. Handshakes are common in some countries, while bending is more appropriate in others.
- **Forms of address**: Important rules in business such as formality or informality. Using title or first names while naming a person.
- **Making contact**: The physical space needed between individuals to feel comfortable is different from one country to another. For instance, Latin cultures need less personal space than Northern people.
o **Dress codes:** The dress code depends on the degree of formality needed and depending on the situation. Northern managers tend to be dressed more informally than Latin managers.

o **Written vs. verbal contracts:** In some countries, in Middle East for example, a verbal contract has as much importance as a written one, which is not the case in Western cultures.

Lees (2003) considers that management thinking and practice in a company are formed through five main features of a country:

1. **The political characteristics:** the way national leaders are selected and dismissed, and the way they execute their power. Leaders are indeed sort of highly influential role models for others in the way they exercise power.

2. **The nature of the economy:** the economic prospects and material well being of the population.

3. **The legal context:** dictates how people relate to each other and manage their affairs, and how business is to be driven.

4. **The socio-cultural background:** Involving values, beliefs, myths, religion, attitudes to time, and relationship with the environment, among other cultural factors.

5. **The national history of the country:** This point is particularly in relation to other countries.

Those five national features are all related to each other and shape the huge form of what takes place inside organizations. They also shape the way people think and their perception in the country, as well as the way people react, act and do not act. To interpret correctly those features, it is necessary to add that cultures evolve across each generation, which is reinterpreting the past depending on the context, according to its present and future needs (Lees, 2003).

### 3.2.3.3 Hofstede’s theory on national cultures

In order to describe and differentiate cultures, Hofstede (2001) created a model through a study in 50 countries, which depicts four primary dimensions of cultures. This model emphasises power distance, uncertainty, avoidance, masculinity and individualism.

**Power Distance (PD):** This dimension implies people’s beliefs about unequal distributions of power and status, and their acceptance of this inequity. In countries with a high power
distance culture, individuals with higher positions or title receive significant power and employees in these cultures tend to accept such centralized power, which implies that they depend on their superiors for direction because they are less likely to take part in the decision making process. On the other side, in countries with a low power distance culture, people assume to be involved in decision-making, and do not accept easily centralized decisions and power. Indeed, employees’ participation is part of lower distance culture (Hofstede, 2001)

**Uncertainty Avoidance (UA):** Hofstede (1991: 113) defines this dimension as the “extent to which the members of a culture feel threatened by uncertain or unknown situations”. In cultures with high uncertainty avoidance, organisations and individuals are used to doing things in a traditional approach and are likely to resist to new technologies because of the possible risk they imply. On the contrary, in countries with a low uncertainty avoidance culture, there is less need to predict things and a lower dependence on rules. This implies that such culture is more trusting and people are more disposed to adopt and implement new technologies in their work.

**Masculinity/Femininity (MAS):** Referring to Hofstede (1991), masculinity means societies where social gender roles are clearly distinct. Masculine cultures value assertiveness and give importance to material success, while feminine cultures value modesty, tenderness and quality of life, as well at the workplace.

**Individualism/Collectivism (IDV):** According to Hofstede (1991: 114), individualistic cultures involve a society where individual attaches and commitments are massively movable and everyone is more likely to look out for themselves and their family. On the other hand, in collectivist cultures, people are incorporated at birth into heavily cohesive in-groups, and loyalty to the group lasts a lifetime. In other words, people think in terms of “we” in collectivist cultures while people think in terms of “me” in individualist cultures.

### 3.2.3.4 Critique of Hofstede’s theory

However sharing a culture does not mean that every individual, who belongs to it, has the same knowledge, beliefs and assumptions as the other individuals that are also part of this culture. Indeed, subcultures are present. For instance, at the national level, social class, job, political position, religion, age, sex and other factors are not shared by all members.

Hofstede’s model can be discussed because too generalizing people from a culture and trying to identify a culture within a specific nation, though a culture may have very different kinds
of individuals with different patterns. The theory of Hofstede suffers from several weaknesses and has been criticized several times by researchers. A first irrelevance is that Hofstede only studies cultures within the limits of national boundaries, though cultural boundaries are not always limited to the one of a country. It is the case in countries that include different socially dominant or inferior cultural groups, for instance Belgium, which encloses French, Flemish and German cultures within its boundaries, or even Canada with the Quebec culture (Mead, 1998: Bjerke, 1999).

A second reproach that can be done to Hofstede’s theory is that his model is only based on the case of one company in one single industry. The argument is that the study is limited to one group of people with several similarities regarding their background and business culture, which do not correspond to other social groups within the country (Mead, 1998: Bjerke, 1999). Additionally, the dimensions created by Hofstede do not explain, they are only tools to describe and classify the most visible part of national cultures (Lees, 2003).

However this criticism, the theory of Hofstede remains still significant. Indeed, his dimensions of culture should force managers to see the cultural dimensions behind their management style. In other words, the way we see management, organization and strategy is shaped through the dimensions regarding the country we live in. If people are leaving in two different poles, they will have different basic assumptions and see management very differently. On contrast, people living in the same country will probably share a lot in common. Therefore, management approaches are depending on a particular time and place and way of thinking, as well as specific circumstances (Lees, 2003).

In order to have a more appropriate and wider classification, Bjerke (1999) identify several possible variables that allow classifying a national culture:

- Class structure: Vague vs. distinct
- Power distance: Short vs. long
- Problem-solving: Scientific vs. traditional
- Modes of thinking: Pragmatic vs. universalistic
- Decision-making style: Democratic vs. Autocratic
- Concepts of achievement: Unbalanced vs. balanced
- Interpretation of communication: Low context vs. High context
- Personal orientation: Individualistic vs. collectivistic
3.2.3.5 Trompenaars’ cultural dimensions

According to Trompenaars (1994), specialist in the field of cross-cultural communication, each culture differentiates itself from others by the way it uses to solve certain problems. From the solutions that different cultures have selected to some universal problems, seven fundamental cultural dimensions were identified:

1. **Universalism vs. particularism**: in cultures with high universalism, formal rules are more important, while in high particularistic cultures, relationships are more valued than rules and less attention is given to abstract societal codes.

2. **Individualism vs. communitarianism**: Do people see themselves primarily as individuals or primarily as part of a group?

3. **Neutral vs. affective**: In a neutral culture, people are more likely to show their emotions less. In contrast, in an affective or emotional culture, people shows their feelings more easily.

4. **Specific vs. diffuse**: Specific cultures divide work from private life. On the other hand, in diffuse cultures, people also let others into their private life when they come into their work environment.

5. **Achievement vs. ascription**: In an achievement culture, individuals obtain status from their performance, achievements and records, whereas in ascription cultures, people obtain their status from birth, family, gender or age.

6. **Sequential vs. synchronic (time)**: Individuals in sequential cultures tend to be on time and give a lot of importance on being on time to appointments. In a synchronic culture, people do not necessarily give a lot of emphasize on being on time to meetings, or may change cancel those meetings at the last moments. In this culture, relationships are more valued than schedules

7. **Internal vs. external control (environment)**: This dimensions regards if people are more likely to control what is happening in their environment (Internal control) or if they let things happen (External control). Individuals, who control their environment, are persuaded to have the choice, while people controlled by their environment wait for things to happen.
Trompenaars’ seven dimensions theory shows that people may react differently to universal problems depending on their culture. Moreover, the national cultural has generally an impact on management, which is reflected in the basic beliefs and behaviors of the country’s individuals. For example, the culture of a society can influence management approaches in different ways:

- The degree to which power is centralized or decentralized;
- Willingness among individuals to take risks;
- Reward systems and reward criteria
- Employee’s loyalty to his company.

3.2.4 Cultural clash and conflicts

3.2.4.1 Definition

In every cross-border alliance, there are starting points of potential cultural conflicts and misunderstandings. According to researches, cultural differences are the largest problem and source of difficulty in integrating cross-border acquisitions, and cultural differences is considered by 35 percent of senior executives as the number one problem in cross-border acquisitions (Schneider and Barsoux, 2006).

However, according to Schneider and Barsoux (2006) too often the cultural issue is unrecognized. Indeed, the main reason for failure in merger or acquisition is not that behaviours, values, and beliefs are different across cultures, but that their importance to those cultures is too often underestimated. Sometimes what may be seen as irrelevant in some cultures may be considered as sacred in others. The difficulty lies in how to recognize what matters in the other culture.

In order to limit cultural clashes, while engaging into alliances or other operations abroad, companies need to analyze as much as possible the potential cultural clashes that could arise, in order to forecast them. The symptoms of cultural problems must be recognized to find out the causes (Schneider and Barsoux, 2006).
Ting-Toomey and Oetzel, well-known for their book “Managing Intercultural Conflict”, (2001: 17) describe cultural conflicts as “the experience of emotional frustration in conjunction with perceived incompatibility of values, norms, face orientations, goals, scarce resources, processes, and/or outcomes between a minimum of two parties from two different cultural communities in an interactive situation” (Ting-Toomey and Oetzel, 2001: 17). Intercultural problems lie around various cultural approaches that people carry and show while expressing their values, norms, goal emphasis and way of managing conflicts.

In other words, Lees (2003), who links the cultural aspect and the merger concept in his book states “culture only becomes a problem when there is a mismatch of values or beliefs or priorities or assumptions on each side and the difference impacts upon performance. If there is no impact on performance, there is no significant management problem”. (Lees, 2003: 193) This statement can be hold at the organizational level, at the national level and at the international level.

### 3.2.4.2 Sources of cultural conflict

Ting-Toomey and Oetzel (2001) have depicted different sources of cultural conflicts:

- **Cultural differences**: Misunderstandings related to different points of view and ways of communicating that come from cultural differences.

- **Assimilation vs. ethnic identity maintenance**: the competing needs of assimilation and conservation of cultural/ethnic identity.

- **Power imbalance**: the manner power is distributed.

- **Competing conflicts goals**: groups within the organization may have different goals and conflicts may arise while interacting.

- **Competition for scarce resources**: competition for the allocation of resources.
It is necessary that managers are conscious of the sort of conflicts existing in order to manage them anticipatively and afterwards rapidly (Ting-Toomey and Oetzel, 2001).

As mergers and acquisitions processes often imply matching two different company cultures, culture clashes are likely to occur many times during the different steps of the merging process. Indeed, a culture clash can be seen as the impact of operational and cultural problems resulting from cultural differences of two organisations involved in a merger or acquisition. Culture clash is an important issue because it is one of the primary causes of failure in mergers, acquisitions and even strategic alliances (Carleton and Lineberry, 2004: 13).

According to a PriceWaterhouseCoopers’ report (2009) related to mergers and acquisitions in developing markets, it is important to give importance on creating reliable global corporate cultures that involve the national cultures of the acquired company, and not impose a management culture that strongly lean close to any one national identity.

As the corporate values must be reflected in all the company decisions and way of doing its business, while choosing a target company for a merger-acquisition or an alliance it is determinant to take into consideration the cultural and ethical values that are shared by both companies in order to achieve a successful and sustainable new corporate, or relationship at a lower degree of cooperation (PriceWaterhouseCoopers, 2009).

### 3.2.5 Corporate culture

#### 3.2.5.1 Definition

“To really understand the organizational culture in a foreign target, acquirers first need to understand the national culture” (Lees, 2003:269). In this thesis, the corporate culture is seen as a subculture of the national culture. In other words each organization in a country is a technological subculture of national culture, with visible points of distinctiveness and large parts of invisible similarities. Therefore, the organizational culture is divided into the organizational climate (as superficial part) and the national culture (the deep culture part) (Lees, 2003).
Each organization in a country is a subculture of national culture with visible distinct points and deep portion of invisible similarities.

Source: Adapted from Lees (2004: 191)

Organizational climate is the part that managers can manage. This is what is meant by managing organizational culture. Changing thinking and practice in the climate part of organizational culture is possible, and has been done through decades in artifacts (automated production, computers) and new social behaviours (delayering, outsourcing) (Lees, 2003).

On contrast, the national culture part of organizations cannot be directly managed. Organizations are only small entities and subcultures of the wider national culture in which they evolve, and their workers are drawn. According to Lees (2003), an American firm is essentially American, and a Russian firm essentially Russian.
In every country, beliefs, attitudes, values, customs and practices, and the basic assumptions that exist outside the company, in the national culture, exist inside the company as well. Additionally, some national assumptions are added by the law, by strong societal expectations, and brought by unconsciously by managers and staff. Consequently, all the components of a national culture are included in national companies and managers cannot avoid those (Lees, 2003).

Culture is not something inherent but learned and it is human made. It is also something shared by a group of people. As a consequence, culture is also build upon interactions between people, who are sharing values and beliefs to produce behavioural norms. According to Trompenaars (2003: 26) “Culture is necessary for human, it is like a guide. The culture allows to the human to have norms and values...It is by this way that society can establish life rules. But the culture does not only play a role at the society level, the culture plays an important role in business”. So, corporate culture is important in order to create ways of behaving and working inside a company shaped by rules, norms and values.

This section is related to the organization culture itself. The relevance of mentioning this type of culture regards its relation with the national culture concept. Indeed, the organizational culture is largely influenced by the national culture in which the company is established, as well as its headquarters or founders nationality.

Additionally, the relevance of the corporate culture has been undoubtedly recognized as a major driver of organizational performance and results, and even of individual performance inside the organization. In today’s business world, culture and cultural change has become daily bread for managers and this is why it is primordial not to ignore or neglect it while planning and executing mergers and acquisitions (Carleton and Lineberry, 2004).

Many definitions of organizational culture are available, for instance, if we refer to Hofstede (1991: 237), organizational culture can be defined as “the collective programming of the mind, which characterize the members of one organisation from others”. However other authors refer more to a philosophy or norms that guide an organization’s policy or the climate in which members of that organization interact with customers and other outsiders, in a way guided by the organization’s philosophy (Carleton and Lineberry, 2004). In some way, corporate culture can be defined as the company’s shared values, beliefs, business traditions, trading principles and operating ways in the internal work environment, which are embraced by the members of this corporation (Lodorfos and Boateng, 2006).
Literature often states that the organizational culture drives the dictates attitudes and behaviours to its members within it. On the other hand, we can say the members of the organization also shape the organizational culture by their individual culture because people have their own education and experiences, which create their proper frame of reference in order to analyse daily situations.

According to Mo and Mei (2004) the company culture is created by human beings, which implies that the organization should follow values and ethical values that people usually perceive. This idea is pretty important in cross-borders M&A because the culture of the company must reflect people’s values and beliefs, which found their source also in the national culture. As a result, norms, values and procedures designed in the organization should be adaptive to its environment and social situation. The essence of the corporate culture is primordial and must be understood because it provide a physiological link that helps the company to keep its members together like a team to achieve its organizational goals and objectives.

Hofstede (1983: 75) states that “The national and regional differences are not disappearing, they are here to stay. In fact, these differences may become one of the most crucial problems for management; in particular for the management of multinational, multicultural organizations, whether public or private”. Indeed, national cultures play a determinant role under the foundation of a corporation.

### 3.2.5.2 Culture and the organization

Schneider and Barsoux (2003) states that culture is reflected in the different processes of an organization such as:

- **Policies and procedures**: reduce the tolerance for uncertainty in the company.
- **Systems and control**: expose the cultural assumptions concerning relationships with people. For instance, for a French manager, the main function is to control, while for a British manager, it is to coordinate.
- **Information and communication**: includes how information flows, what sort of information are shared, cultural preferences for hierarchy, formalization and participation.
- **Decision-making**: concerns who makes decisions, who is involved, where are decisions made. Organizations with more emphasize on power and hierarchy, are more willing to centralize decision-making. The rapidity to take decisions also
reflects the attitude of the culture to time. As an example, Japanese are slow in decision-making because of their collectivistic culture, and with a deep past tradition that cannot be changed so easily.

3.2.5.3 Types of organizational cultures

In order to find explanations for the merger and acquisition high failure rate due to cultural incompatibilities between merging partners, several researchers have tried to find out and depict different types of corporate culture. For instance, Dashpande et al. (1993) classify organizational cultures in four categories:

1. Market culture: focus on competitive advantage and market superiority.
2. Clan culture: focus on internal maintenance of commitment, cohesion, and morale.
4. Adhocracy culture: creativity, flexibility, innovation, and entrepreneurial culture.

However other classifications are available. For instance, Harrison (1972) is describing four different culture types:

1. Power culture: focus on power, individualism, prestige, autocracy, implicit rules, motivation through personal devotion and fear of punishment.
2. Role culture: bureaucracy, hierarchy predictability and efficient culture, formal procedures, standardization and written rules, which make employees dispensable.
3. Task/Achievement culture: focus on team commitment, mission statement, customized products, work structures according to tasks, flexibility and autonomy to employees, creative environment.
4. Person/support culture: focus on egalitarianism, personal growth and development.

Cartwright and Cooper (1993), well-know in the area of cross-national mergers and acquisitions, assume that combinations of role and power, role and role, task with power, role and task are potentially successful. Other combinations lead to disastrous or problematic mergers.
3.2.6 Culture fit and acculturation

3.2.6.1 Cultural incompatibilities
Connecting two companies is often followed by the emergency of a cultural shock implying a change. A wrong focus given to that change resulting from the cultural shock can be enough to make a merger or an acquisition failed as well as making the best talents leave the company resulting in a loss of synergy or added value (Gumy, 2007).

While two companies are merging, cultural incompatibilities may exist at different levels:

- Management (Individual, centralized and formal vs. Teamwork, decentralized, Informal)
- Authority (Individual decision making vs. Group consensus)
- Reward system (Based on performance vs. Based on loyalty)
- Communication (Exceptional vs. Continual)

Consequently, leaders should be aware of those levels of incompatibility in order to manage them and limit cultural clashes.

3.2.6.2 Post-merger and acquisition cultural integration
In order to solve the cultural issues and achieve better results in M&A, several approaches exist. The decision to rather follow a certain type of cultural approach depends on several factors such as the transaction motive(s) and the size, the geographical and market presences, the staff, etc. It is also important to say that those integration theories are not guarantying constant success as each merger or acquisition is every time occurring in a different situation, which might imply different integration methods. Indeed, especially in the case of mergers and acquisitions, theories are pretty hard to be applied in the reality, and should rather be seen as guidelines for merger integration.
Three different approaches to connect culture have been established (Gumy, 2007):

1. **Impose your culture or “Total integration”**

Though this approach involves the risk to destruct significant values, it is the mostly used. Imposing your culture can be very effective if well applied and directed for excellent reasons. In order to make the acquired company accept a new culture, clear motives should be defined and you should as well show that your culture is obviously more adapted to the new structure of the company. The leaders’ role in such risky approach consists in explaining the advantages, the new norms and systems, and symbols that will be imposed explicitly and as a whole in the merged company.

2. **Differentiate cultures or “Cultural autonomy”**

The characteristics of an organizational culture depend among others, on the environment in which it evolves, notably the national culture. Those characteristics defer between business sectors but also between countries and regions, where national culture takes all its significance. While two companies evolve in two very different environments, it would be probably more appropriate to follow this approach and keep the two cultures separated. Unfortunately, such approach limits possible synergies, though it lets companies work as separate entities, which lowers the risk of M&A failure. This approach limits and sometimes avoids culture shocks, and maintains a good performance. However, communication problems may arise due to the different culture that has been left separated.

According to Lees (2003), if two firms remain autonomous and separate, managing culture is first of all a HR issue. The primary steps would be to develop and select executives for positions situating at the border between both companies. Those executives should be rewarded to the context, if they promote smooth implementation and team building.

3. **Creating a new corporate culture**

This approach is certainly the most complex to establish. It consists in building a new culture performing better than the two other cultures working separately by exploiting the best of each culture. In order to create an effective new corporate culture, it is not sufficient to explain why each element is better in such culture or the other. Indeed, integration must be progressive, go through group work and excellent communication. Understanding of each other has to be created upon bridges between both companies. If companies are very similar
in their processes, cultures and systems, this approach can lead to greater performance. Lees (2003) adds that in the case of the creation of a new culture, the new organization should involve characteristics legitimated by the two different national cultures, and accepted by both sides.

When two different cultures collide, they adjust to each other to some extent, which is called “acculturation”. It is said that in general, the weaker company is adapting its own culture to the culture of the stronger one, which is usually the acquirer (Nahavandi and Malekzadeh, 1993). The extent to which members of an organization are willing to adapt their culture to the culture of the merging partner is called the “acculturation mode”. Nahavandi and Malekzadeh (1988) consider four possible types of acculturation:

1. **Assimilation**: the partner’s culture is considered as very attractive and there is a will to renounce to the old culture.
2. **Integration**: the other’s culture is seen as very attractive but there is no willingness to leave one’s own culture.
3. **Deculturation/Marginalization**: the partner’s culture is not attractive, but neither one’s own, so there is a will to abandon the old culture.
4. **Separation**: the other’s culture is perceived as not attractive and there is no will to adopt it.

The main idea is that if both merging companies agree on one type of acculturation, the integration process will go more smoothly. On the other hand, if firms do not agree on a specific acculturation mode, this can lead to tension and resistance in the company.

According to Cartwright and Cooper (1993), M&A can also be compared with marriages by assuming that the premarital culture type influence post-merger compatibility. However, the success of an M&A does not only depend on the merging personalities. If companies have the same culture, it does not mean that they for sure match better, though they may have some ease. In the same logic, if two companies realize a successful integration, it does not mean that they have a similar culture. Cartwright and Cooper (1993) suggest several types of combinations of organizational culture in an M&A:

1. **The redesign merger type**: traditional marriage with one dominant part
2. **The collaborative merger type**: modern marriage with win-win situation taking the best of both parts
3. Extension merger: Open marriage where each part accepts the differences of the other’s culture and do not have the intention to change it. Almost never happen in practice.

By following this reasoning we can say that no matter the similarities in culture between the two organizations, the most significant point is the compatibility or agreement on the same sort of “marriage” between the merging partners.

Tjosvold and Leung (2003) give four prototypical approaches in order to manage cross-border alliances. No matter the number of companies and countries involved in the alliance, the management approach used in cross-border mergers and acquisitions can be classified in one of the four approaches. Different approaches imply different ways to deal with cultural differences. The four approaches to manage are named as:

- **Portfolio**: Managers from the organizations in the alliances keep a high degree of autonomy. Though there are legal and economic interdependencies due to the alliance, the organizations will operate more or less the way they operated before the alliance. In that case, cultural diversity is managed by maintaining separate organizational cultures

- **Blending**: Here, the two organizations involved in the alliance will merge into a new organization, which will retain only the best of both partners. Cultural diversity will be managed via integration, with members of each culture adapting to the other culture (example: DaimlerChrysler).

- **New creation**: In that case, the two organizations agree to build up a new company very different from the originals one. This type of approach is often use in order to join ventures, for instance in a country where the two original company are not yet established.

- **Absorption**: In some acquisitions, the buyer wants to take over and control the target. The acquirer is interested in the targeted company because it may have valuable assets, and for some reasons the target could not survive alone. In that approach, the acquired company will lose its identity and adopt the management practices of the acquiring company.
Tjosvold and Leung (2003) assume that each approach can be a successful way to manage cultural diversity in a cross-border alliance. Additionally, their success depends also on how they have been adopted by managers and communicate to the employees.

### 3.2.7. Culture integration strategies

According to Chancel, Rodgers, and Raynaud (2002), there are two important dimensions in an integration strategy: operational and cultural. The operational dimension concerns merging organizational systems, processes and procedures together. On the other hand, the cultural dimension of an integration process involves building an environment where individuals are both disposed and able to work together in a will of acceptance and understanding. However, the problem lies in the fact that managers do often neglect the cultural aspect. In order to succeed in the integration process, a balance must be made between the human and business aspects but both aspects cannot be separated.

#### 3.2.7.1 MBI Model (Henry, Lane et al., 2005)

The MBI model is used to manage cultural diversity in order for individuals and teams to work effectively. Three steps characterize this model: Mapping to understand cultural diversity; Bridging to communicate effectively; Integrating to bring common perspectives and build upon them. Henry, Lane and al. (2005) state that if bridging is done correctly, the
integration process will flow naturally. Though bridging successfully implies a good mapping beforehand.

The steps of the MBI model are explained deeply hereunder (Henry, Lane and al., 2005):

- **Mapping**: this phase allows understanding the differences between cultures. Mapping creates awareness and consciousness of the different aspects of culture. A cultural mapping is then realized, which have to be accepted by the members. Mapping is about recognizing the different dimensions of its own and the others’ cultures.

- **Bridging**: this step establishes the communication between the different cultures. Three phases are necessary to have an effective communication in a cross-cultural context: Preparing, decentring, and “recentring”. Different factors are necessary to make those steps successful such as motivation, confidence, no blame on others’ culture, and a sense of unity. The Preparing stage concerns setting up a ground for communication. Decentring implies going away from your own cultural centre and try to understand others’ point of view in order to make yourself understood and understand others. The last phases of the bridging is “recentring” in order to establish a common reality and harmonizing common rules.

- **Integrating**: awareness of culture diversity and the ability to communicate with culturally different counterparts have to be put in practice in order to build participation, solving conflicts and create common views.

### 3.2.7.2 Culture Bridging (Chancel, Rodgers, and Raynaud, 2002)

Chancel, Rodgers, and Raynaud (2002) consider that cultural integration is part of a myth and propose another solution: “linking one culture with another”. This is what they call “Cultural bridging”. According to them, this method is the most effective way to create a good organization, lower conflicts and achieve results. After an acquisition or a merger, managers should first be sure that people do not fall into defensive mindset and consider others like rivals, and then ensure that everybody stay focused on the business while implementing the integration process.

“We are skeptical about the notion of cultural integration when it comes to integrating national cultures or religious beliefs. It may work at an individual level, but at a collective level, culture is rooted so deeply and unconsciously that anyway, cultural integration would never happen at the same pace as technical or economic integration” (Chancel, Rodgers, and Raynaud, 2002). According to Chancel, Rodgers and Raynaud (2002), the right culture for a
company is the one that enables to most effective answer to its external threats, and taking people’s past history and values into consideration. Cultural diversity must be an asset of the company, not a weakness, and Culture bridging is a good approach to create a link between cultures.

Three tools are elaborated to manage cultural bridging (Chancel, Rodgers, and Raynaud, 2002):

1. **A model to build the kind of understanding of our respective culture**

2. **A process for managing integration**, which is build on Culture bridging and helps to make a good use of the information given by the diagnostic. This integration process is made in four steps:
   - **Preparation**: before acquiring a company, it is important to look at all its features, in order not to have surprises afterwards.
   - **Transition**: this phase is the start point for partners to work together and define the new venture. Integration teams are made to develop plans for the merger of business processes, resources and responsibilities. At this stage, people will tend to look at the new environment with their own frame of references.
   - **Integration**: it consists in implementing strategies and plans in deeper details. A common history and common basic values are created, which will drive the new shared-company culture.
   - **Consolidation**: a new and unique company culture is now set up under stability.

3. **Leaders have to build their own weapons and gain culture-bridging competencies**: Traditional leadership abilities are not adapted to lead successfully a cultural integration, and cultural diversity. In order to be able to deal with different cultures, “traditional” managers must gain additional competencies such as curiosity and open-minded, self-awareness, risk-taking and the ability to deal with uncertainty, active listening, empathic assertiveness, constructive influencing and mediation, focus on process, language, and building trust. A manager possessing those abilities can handle cultural diversity, study and understand a new culture, be aware of cultural differences, and reduce conflicts. Hiring such managers facilitate the integration process in the organization.
3.2.7.3 The role of communication in the integration process

Communication has to be considered as a key success factor. However, the type of communication has to be different according to the phase of the integration process. The figure 9 shows the different nature of communication needs, and how the leader can create the motivation to achieve each integration phase. Leaders have to know that people have different needs at each level of the integration process.

Figure 12: The different natures of communication needs

Source: Chancel, Rodgers, and Raynaud (2002: 149)

During the first parts of the process, leaders use most emotional communication with support and coaching. The reason is that when there is a change, like an acquisition or a merger, people feel more unsecure. During the transition phase, roles are defined and less support is needed. Indeed the cognitive communication takes place. For in integration phase, cognitive communication is mainly required such as explaining results, giving feedback, and tasks to achieve (Chancel, Rodgers, and Raynaud, 2002).

Additionally, Barsoux and Schneider (2003) states that the best way to lead cultural diversity can be done through face to face relationships, international project groups, international management training and development, sharing values with an emphasize on local interpretation, promoting different values and flexibility.

This section has given several concepts regarding a successful integration process like study the culture of your target beforehand in order to get to know its culture. An integration process can then be established including communication, shared values, managing conflicts
and merger both cultures. In order to do so, managers must have additional cultural abilities, which are discussed in the next part.

3.2.8 Cultural leadership

Mergers and acquisitions are very tricky and complex to manage. A large number of factors influence the process and can lead it to whether failure or success. Too often, the cultural aspect is blamed for failure or for unreached goals after the merger or acquisition deal (Cartwright and Cooper, 1995). Therefore, other factors should be taken into account because of their relevant influence on the merger and acquisition process, such as distance, law compatibility, language, political context, business practices, management styles, mode of thinking, values and basic assumptions (Lees, 2003). On the other hand, mergers have an influence itself on the culture of the companies. This influence is even bigger while the merger is cross-border and involves companies from different countries with different national cultures. It is why it is important that leaders consider the importance and the relevance of the cultural aspect, national and organizational, and try to manage it in order to avoid culture clashes.

Chancel, Rodgers, and Raynaud (2002) describe several reasons why leaders do not succeed in managing the corporate culture:

- **Lack of awareness**: Leaders are not conscious of the cultural dimension.
- **Lack of understanding**: Leaders do not recognize culture and its consequences.
- **Lack of willingness**: Cultural aspects are not seen as important, leaders are not competent enough to manage it, and leaders think that there is no need to act at all.
- **Lack of ability**: Leaders are conscious of cultural aspects but do not have the tools to solve them.

Leadership and management teams at the top of new entities resulting from mergers or acquisitions need to find ways to recognize and anticipate cultural similarities and differences
in order to make a cross-border merger successful (Chancel, Rodgers and Raynaud, 2002). Moreover, the corporate culture must be a tool for opportunities and spot opportunities and threats in the external environment and must also create a way to facilitate a dynamic response to change and adaptation in the environment. Therefore, the corporate culture must not restrain internal divergence, but try use internal diversity as a weapon (Trompenaars and Prud’Homme (2004).

According to Lees (2003), companies involved in a cross-border merger or acquisition need a leader that have a significant number of cross-cultural competences. He believes that culture understanding and culture experience are closely related. However, what has been done so far is developing global markets, but no global leaders able to sustain those global markets.

Chancel, Rodgers and Raynaud (2002) explain that a manager having experience abroad is more efficient to manage cross-border activities and understand cultural diversity. Schneider and Barsoux (2003) have established specific competencies for managing abroad and internationally. Those particular competencies to manage abroad are different than the one for local managers:

- **Interpersonal skills**, helping to integrate
- **Linguistic abilities**, to establish contact
- **Motivation to work and live abroad**
- **Ability to tolerate and cope with uncertainty**: information available in order to take action may be limited and insufficient. Facing changing and unexpected conditions. Therefore, adaptation is required.
- **Patience and respect**: it takes time to learn a new culture.
- **Cultural empathy**: not simply judging.
- **Sense of humor**: helps to build relationships.
- **Managing differences at home**.

Furthermore, others cross-cultural skills need to be developed (Schneider and Barsoux, 2003):

- **Understanding interdependencies**.
- **Respond to different cultures simultaneously**.
- **Recognize cultural differences at home**.
- **Be willing to share power**: learning from foreign cultures.
- *Show cognitive complexity*: recognize a need for diversification and for integration inside and outside the company at the same time.
- *Adopt a cultural general approach.*
- *Rapidly learn and unlearn.*

To conclude this part about cultural leadership and cultural skills, we can say that in an international merger, a huge amount of cross-cultural competence is necessary, with most of it dedicated to the integration of the two organizations. Due to the global proportion of merger, involving most countries on most continents, the cross-cultural competence required for integration in international merger increases considerably (Lees, 2003).

### 3.2.9 Recognizing the importance of culture

The primary step in managing across cultures and in cross-border mergers and acquisitions is to recognize the importance of the cultural aspect. Cultural differences are the biggest source of problem in integrating cross-border acquisitions. According to a study, 35 percent of senior executives ranked cultural differences as the first problem in cross-border acquisitions (Buchanan, 1989). This figure shows that more than one third of executives know the problem, though this figure still remains low.

According to Lane et al. (2005), creating a new merged company must be the outcome of careful, informed judgments based on comprehending the cultural preconception of the systems and norms of the country in which operation are situated. “*Successful implementation process means finding the right combination of strategy, structure, and systems that motivate people to strive for high performance. It involves listening to, understanding, and working with people from different cultures in the organization.*”(Lane et al., 2005, p181).

In order for people from different countries to work together and understand each other, Allpost’s theory gives six conditions that must be created to manage effectively cultural diversity in cross-border mergers and acquisitions (Tjosvold and Leung, 2003):

1. Share a common understanding of the objectives and goals for the alliance
2. Give the belief that each partner involved in the alliance contributes to the success of it, and consequently deserves equal esteem and respect
3. Create an organizational culture that rewards cooperation between its members of different culture, and reprimands behaviors that are detrimental for the alliance.

4. Give the opportunity for members of different cultures to develop personal relationships.

5. Create activities that encourage everyone to think on their own values and how those values influence their behaviors, and the way people interpret different behaviors.

6. Give the opportunity for members of different cultures to learn more about and from each other.

According to Tjosvold and Leung (2003), following those principles is likely to better the chance of success in cross-border operations.

Schneider and Barsoux (2003) showed an example of an American company acquiring a British one. American managers thought British workers were spending too much time having tea breaks so they decided to put a tea machine to gain time. British employees felt irritated by the decision and the acquisition did not achieve its goals partly because of such cultural negligence. It is important not to denigrate other cultures and think that ours is the correct way of doing things. This is often unconsciously done through our frame of reference, which influences our mode of thinking. Cultural differences have to be discussed and learned otherwise they cannot be managed and solved. The more we understand and know about other cultures, the more we will be able to work efficiently and collaborate.

### 3.2.10 Influencing the cultural change

M. Bligh (2006) has established the role that leaders should play in order to influence the cultural change at the organizational level. Four different types of cultural leadership are emerging in response to different organizational issues and can be used to manage effectively a post-merger leadership cultural integration if they are taken at the same time:

- **Leadership that creates:** Leaders seek to establish new cultural elements

First of all, in the merger it is important to try to understand the other company culture, which may include different perspective and ways of doing things. Then leaders should emerge with new cultural meanings for the merged company, with for instance a new approach that could combine the best of both corporate cultures. According to Bligh (2006), “recognizing and
utilizing the dual cultural forces of unity and multiplicity can be a powerful tool in facilitating cultural integration”.

Interaction with the employees is also very important, according to Bligh (2006). Indeed, mergers can be emotionally intense for employees and leaders must be caring and empathic to their followers. By neglecting this emotional aspect, leaders may face resistance and reduce the productivity of their employees.

Another issue concerns the tendency of leaders to create high expectations from a change, a merger in our case. Such high expectations may result in antipathy, mistrust, stress and lower the confidence of the employees regarding the merger occurring, because of a wrong picture installed in people’s mind about the merger results. To avoid this problem, leaders should work with realistic goals and expectations, and prepare employees the right way to achieve those moderate goals, which regular feedback in order for employees to see the results of their work (Bligh, 2006).

- **Leadership that changes: modify some existing cultural values**

Bligh (2006) states, that if leaders want to replace the existing cultural values and beliefs, they should promote those changes in a way that employees perceive them as positive and beneficial for the organization and for themselves. It is also important to create a shared vision and give a direction to employees to make them understand why changes are necessary and follow the given direction under the same vision. If people are not enough guided, the risk for the organization lies in uncertainty and potential rumors that will make the merger critical. Implementing cultural leaders can help to make the integration process move forward in a positive way.

Cultural leaders need to be credible. They cannot promote a different cultural model if they do not follow it themselves. This is why they must act each day in a way that illustrate and symbolize the new organizational culture. Additionally, cultural leaders should show that they care about their employees, by empowering and support the employees involved in the integration process.
• **Leadership that integrates:** facilitate the integration of both existing and new values into the merging culture

During the integration process, cultural leaders should build teamwork across the different companies to avoid countercultural formation or stereotype reinforcement in the new environment. The role of the staff is primordial and critical because “it can make the deal work or make it fail”. Involving them into the merged culture is a very important factor that cultural leaders should not avoid; otherwise a failed merger would result in the end.

Bligh considers that another key factor is communication in the company. She proposes an informal communication while debating about cultural differences. The aim for cultural leaders is to lower misunderstandings, rumors, fear and higher confidence in the integration step. In that case, valuing individualized communication helps to achieve those goals, as well as creating channels of communication and time to devote to the cultural issue. Bligh explains “the need for creative, open, frequent, one-on-one communication about cultural differences as a basic prerequisite for cultural integration” (pg. 414).

• **Leadership that embodies:** support and reinforce the new cultural values

Embodying refers to the act of “keeping the existing culture vital” (Bligh, 2006). It helps the integration of existing and new values in the new organizational culture. Too often, unsuccessful results in mergers and acquisitions come from a lack of preparation for the post-merger integration (Ross, 2005). Additionally, the human factor is not enough considered. To manage those issues, Bligh established a sort of integration plan to cope with the creation and the integration of a new company culture in the context of a merger or acquisition. This integration plan takes place in two steps; first, the new organization’s system, processes and procedures must be aligned. The next and second step implies the alignment with people involved in the new merged company.

Creating a new culture is not the end of the process. It is not enough to create a new culture and let it live independently without paying any attention to it. Indeed, a company culture must be sustainable. In order to keep the new merged culture, Bligh gives five steps that help to keep a sustainable culture:
1. Obtain individual buy-in from leaders

During the post-integration phase, the integration plans must be first understood and embodied by the leaders in order to transfer it correctly to the employees. Leaders have to find the right way to present and communicate the basic assumptions and expectations. According to Bligh, the best way to align leaders with a new strategy and culture is step by step. Leaders start to point out their own interpretation of the expected culture, and then recognize that the prospective integration plan really fits to reach the cultural objectives. Moreover, leaders must create a balance between their own goals and the organizational ones. A tendency to put their goals first would be a source of conflict within the organization, and result in a lack of commitment.

Additionally, other elements should be included in the integration process such as an early start, a timetable with quick finishing points, a influential leadership, clear and regular communication to members of both companies, and a focus on the customer service with the will to take decisions on tough issues (Ibid: 5).

2. Address the “me” issues

The “me” issue concerns the employees’ preoccupation about what is going to happen to their job after the merger. It is one of the most critical issues and should be prioritized. Several examples of “me” issues are will I have a job? Will my pay change? Who will I report to? Etc.

3. Identify integration risk factors

This step concerns the risk factors that merged entities should consider from the start of the planning process to reach their goals. Before the deal, it is important to point out what are the potential synergies and why the deal should be done. In the pre-deal context, risk factors concerns M&A capabilities (experience in M&A), the distance between the two merging organizations, the hostility of the takeover, the competition within the market, the financial context and business performance, and the dominant company in the merger as the merger of equals is considered as a myth.

Another risk is the non-alignment of the companies’ strategies. Therefore, several issues must be considered such as the integration level, the management of talented people, the ambiguity in power and authority, and the pressure of the competitors.
All those risks must be continually assessed to succeed in the integration process and make the deal successful.

4. **Avoid deadly sins of M&A’s**

Dead sins relate to pitfalls that leaders should keep away, making the cultural integration successful. It goes about poor due diligence, delaying the beginning of the integration and speeding up the finish, allowing divergent initiatives, taking too long to solve the “me” issues, insufficient communication, putting no one in charge, and ignoring project management disciplines.

5. **Learn from best practices**

Here are 10 key M&A success factors that according to Bligh (2006), lead the integration process to achieve its initial goals:

- Performing through the due diligence,
- Formulate the vision of the degree of integration
- Increase the speed of decision making
- Align senior management
- Clearly define the approach
- Appoint a respected and capable integration leader
- Establish a dedicated and capable merger team
- Use best practices
- Set measurable goals and objectives
- Maximize communication

Additionally, the time is an important issue. The author considers that the faster the integration process is achieved, the better the cultural integration is accepted.

○ **Who to run a cross-border M&A?**

Answering this questing is very difficult because it depends upon many variables and only few researches have been done so far, often without concrete conclusion. Some countries tend to prefer their own national managers, while others prefer to leave locals in charge. Lees (2003) states that there are basically three possibilities:
- *Retain the current CEO:* If the acquired business had a good CEO and management team at the top, you can leave them work alone. You should retain them, and manage the acquisition through them.

- *Send out an expatriate manager:* It implies putting one of your own managers among the top managers of the acquisition. The advantage is that you have a pair of eyes and ears in the company acquired.

- *Appoint someone new:* It is really crucial to have an integration manager situated overseas, even if no changes have been done to the top management team. This integration manager could come from your own company, from the acquired one, and thus a local manager with experience in change management.

Other issues should be considered depending on the situation and some other type of manager could be required such as experts in a certain domain. In addition, the language issue should be considered; bilingual managers can be very useful in the case of cross-border M&A in countries with different languages (Lees, 2003).

Above, we have discussed the possibility to send one of our own managers overseas in order to manage the acquisition and keep an eye on how things are doing; however managing abroad in a different culture is not an easy task. Indeed, People usually tend to stick to what they know well, to the environment and lifestyle they are used to. This limits the understanding of other cultures and its development. The main reason is that individuals are a product of their own culture, which makes it difficult to live in a cultural context and trying to understand it at the same time.

○ **Ethnocentrism and nationalism**

Questioning somebody about its culture is not really a matter, the main problem is adopting a different point of view to understand others’ behavior, as the human behavior reflects our values, practices which are affected by our own culture. The approach people take in order to judge other cultures is called *ethnocentrism.* It implies understanding others according to your own standards. While staying abroad, people get a better perception of others’ behavior because of melting with a different culture. People are mostly blinded by their own culture, and in order to be able to work efficiently with other cultures, they must first understand their own culture.
Furthermore, in cross-border activities, there are issues that concern the national culture. The national culture tends to give people a sort of national identification and a demarcation from other countries, which may play a significant role and often lead to stereotypes. Through this, we may introduce the concept of *nationalism*. It concerns behaviors and perceptions about a certain nationality as it is reproduced in everyday life. Indeed, nationalism is a way of thinking and doing things that seems normal for individuals living in the same country but could look bizarre and abnormal for people living in another country. In fact, people create a social reality by separating the world into “us” and “them”. Therefore, individuals build a positive self-image and perceive others as inferior, which may lead to social consequences (Hall, 1995). Nationalism is deeply present in Europe and has often created problems in cross-border mergers and acquisitions between European countries as we have seen in the case of the merger between the French BNP Paribas and the Belgian Fortis, where Belgian were unwilling to lose their identity and keep at least several executives Belgian and the headquarters of the bank in Brussels.

As well in the case of Renault and Volvo, nationalism was one of the failure reasons. In fact, the Swedes believed that Volvo was part of the national heritage and were against the merger. They did not want that the jewel of the national automobile industry was sold to a foreigner that may not care about the interest of the country, and therefore Swedish workers may lose their identity. Indeed, companies have their own national habits, which influence their way of working. Through this explanation, we may think that a merger between two companies from the same country leads to better results. However we should be careful in stating this, because other types of culture exists such as corporate and industrial culture for instance, and other factors play an important role in the merger process.

In the global business world, companies cannot only focus on their domestic market if they want to be successful. So it is primordial to understand different cultures and face international competition. Concentrating on the domestic market like in the past is not possible anymore, because even in its domestic markets a company will face international competition. Neglecting the cultural concern is not a waste of time and believing so can be disastrous (Czinkota et al., 1994: 263).

There are several questions that a manager can ask himself in order to limit costs due to errors in the cultural aspects, such as (Harris and Moran, 1979: 21):
I. What must I know about the social and business customs of country X?
II. What skills do I need to be effective and a negotiator in country Y?
III. What prejudices and stereotypes do I have about the people in country Z?
IV. How will these influence my interaction?

There are currently two kinds of knowledge related to culture that a manager must have in order to cope with problems of another culture. First, there is a need for factual knowledge, because it is how culture manifests itself in social customs. Those customs are easy to anticipate, study and learn. The second kind of knowledge is more difficult to get; it is a more interpretative type of knowledge and imply to be able to understand what is behind the social customs, at the level of social norms, interpersonal values and existential assumptions.

Regarding the factual knowledge, managers in global companies need to know the social and business customs of the countries in which they operate. Those factual issues include (Moore, 1982: 536-540):

- Personal acceptability
- Time in social events
- Friendship and politeness
- The enculturation process

A merger or an acquisition can lead to a great magnitude of change in the concerned companies; this is why leadership plays an important role in the merging process, as well as the cultural aspect. Indeed, leadership holds everything together and it has the function to create or break. Leaders are the most important drivers of employees’ engagement. During periods of transition, employees seek first to leaders to guide them about how to react and behave, for motivation, and for a focus (Able, 2007).

As a result, leaders’ behaviour during mergers and acquisitions has an important impact on how employees of both companies react and encourage a sense of community and aim. In order to make the change successful, a positive employee view of leaders is decisive. What employees needs to feel is that leaders cares about them, and if they feel so, employees are more willing to help in the achievement of the transition (Able, 2007).

Creating and sustaining cultural alignment during the first 100 days is considerably important. During this period, the organizational culture and employee perceptions of it is shaped. The intervention of leadership is a critical sign of the new company culture (Able, 2007).
The M&A integration will have more chance to be successful if the leaders are placed at the right role and ensure a match between leadership and the desired company culture and business strategy. The commitment and development of the leaders can be done during the integration process through executive training, ongoing feedback, and formal integrated activities (Able, 2007).

Regarding training, and more precisely cross-cultural training, Lees (2003) believes that preparatory training for a cross-border acquisition is absolutely vital for the managers. According to a study from Black and Mendenhall in 1990, they estimate that 70 percent of US managers working as expatriates receive inappropriate pre-departure cultural training. This step is often taken too late, and should be considered earlier in the merger plan.

Mendenhall et al. (1987) established three different levels of training that are adequate to the length of stay:

- **Familiarisation**: Low meticulousness, principally information-giving (Business and social, as well as language basics) enough for a short stay (one month).

- **Interaction**: Long stay (two month to one year) necessitates a deeper training that shows how to interact within the new culture. It implies culture assimilation, language and daily behaviour course.

- **Immersion**: Intensive training for a long stay from one to three years or even longer based upon familiarisation and interaction training, with intensive language courses.

Those three methods show what kind of training can be done to improve the performance of overseas managers depending on the degree of culture difference they will encounter. However, a short stay does not mean a short training and vice-versa (Lees, 2003).

### 3.2.11 Consequences of cultural diversity in cross-border mergers and acquisitions

This part discusses what the consequences of cultural diversity are in the long run after a merger or an acquisition. This helps to understand why the cultural aspect is significant for companies, and should be learned. Indeed, culture can affect organizations as well as
individuals in different ways. While some results may be positive, some other may be damaging.

Regarding the prospective benefits that can arise from culture diversity in a company, a merger or an acquisition would promote and facilitate the partners to learn from each other and their differences. Issues could then be approached in a new way or more innovative by learning from the other, for instance in technologies. This can be seen as a knowledge transfer from one company to another, concerning a new market, new technologies, etc.

However, not only benefits arise in a cross-cultural alliance. Indeed, cultural diversity seems to obstruct the development of cohesiveness within the company among its members. This low level of cohesiveness can be problematic for both companies and individuals within those companies. Usually, cohesiveness in the company encourages helping behaviour and generosity, cooperation and more will to come to an end while negotiating. So, if cultural diversity has a negative influence on cohesiveness, it lowers the performance of individuals, and the organization will suffer from it. Additionally, this lack of attraction and commitment often promotes conflict in the company, which may influence people’s will to leave the new organization.
3.2.12 Summary of the theoretical part

In the theoretical framework, we have gone through several theories and concepts to give the reader a background about the M&A process and the culture issue in the merger context, in order be able to understand the cases and perceive their relevance regarding the topic.

First, we have started with a review of the merger and acquisition theme. The idea was to give the reader an understanding of why mergers and acquisitions play an important role in the business world and understand their occurrence through an historical and a list of motives. Then, it was important to show that there are different kinds of mergers (such as horizontal or vertical) and to explain what are the different steps of a merger process that allow a merger to take place.

Afterwards, we have introduced the concept of culture in order for the reader to have a comprehension of the several notions that it implies. Indeed, an explanation of the culture issue has been given with the description of the national culture and corporate culture, among others. Then, we have introduced step by step the cultural topic into the mergers and acquisitions context; first, with the description of cultural clashes while two different cultures are meeting, and then while explaining the culture fit and acculturation process after a merger.

In order to manage the cultural differences and the cultural change occurring after a merger or an acquisition, we have tried to give several solutions that might help to handle the cultural issue in a merger and acquisition perspective. However, there is a not a single recipe to manage the cultural aspect of a merger, and each merger should be considered as unique. Indeed, we think that the theories introduced in the theoretical parts should be more considered as guidelines and give the reader a better understanding and awareness of the cultural issue, which may have a importance in order to comprehend the cases that follow.
4. Case Studies

This section introduces several case studies of cross-border mergers and acquisitions. These cases are studied from a cultural perspective, and more precisely from a national culture perspective; its influence and importance on the deal, and the challenges it had brought to the merging organizations.

4.1. The DaimlerChrysler Merger

- Introduction

In the mid-1990s, Chrysler was the most profitable automotive producer in the world and its revenues were constantly high. Chrysler was known for producing vehicles that embrace the bold and pioneering American spirit while imports dominated the U.S. market. Chrysler strengths lied in its integrated design teams, non-competitive relationships with suppliers that kept costs down, and a successful marketing department constantly seeking for consumer tastes.

The culture of Chrysler had always appeared bold and risk-taking due to the difficult time the company had lived coming back from the point of bankruptcy four times since the Second World War. At that time, the company was successful with a high amount of cash on hand and a range of best-selling products.

In 2001, three years after the takeover, however, the view on the merger of equals with Daimler-Benz is quite depressing. The financial data is very bleak and the Chrysler group suffers from losses with a U.S. market share sinking, as well as earnings for the company that has been fully subordinated to Stuttgart. The competition from Toyota, Honda, GM and Ford has decreased its car sales. At that time, car manufacturers had to choose between steadily reduce their costs or being competitive on the market by decreasing prices. However it was not possible to reduce the prices due to the fierce competition in the industry and the entrance of efficient low-cost car producers in the market. Additionally, developing new vehicles and embarking them on the market is very expensive and implies many risks (Löwisch, 1999).
**A merger of equals**

In 1997, Chrysler CEO Bob Eaton had in mind that the automotive industry would be soon facing a storm, though the profits accumulated in four years of rapid growth at Chrysler. The automotive industry was in chronic overcapacity, as well as a retail revolution that empowered buyers. Additionally, a wave of environmental awareness and concerns was threatening the existence of internal combustion engine. Bob Eaton thought that the best way to survive to this storm was not to face it alone.

At the same time, Daimler-Benz was looking for a partner and ally. Its luxury vehicles were not so popular in the United States and the German manufacturer owned only 1 percent of the American automotive market. In the meanwhile, the labour costs were quite high at Daimler-Benz and it was time for the company to seek for economies of scale to improve its position within the industry. Chrysler seemed to be the perfect partner with its high profits, its efficiency and low design costs, and a large American dealership network that could help Daimler-Benz to improve its presence trans-Atlantic. The willingness to merge with Chrysler lies in the creation of a partnership that would stabilize and give financial security to the American company, as well as an international presence on the car market.

In May 1998, Eaton declared that Chrysler was merging with Daimler-Benz. Jürgen Schrempp, Daimler-Benz CEO said that this union was “a merger of equals, a merger of growth, and a merger of unprecedented strength”. Schrempp added that “This is much more than a merger, today we are creating the world’s leading automotive company for the 21st century. We are combining the two most innovative car companies in the world”. The merged company DaimlerChrysler became the fifth largest automaker in terms of vehicles produced after GM, Ford, Toyota and Volkswagen” (WSWS, 1998).

The first speeches given by Jurgen Schrempp and Robert Eaton after the conclusion of the deal were very ambitious and encouraging: “We believe that the merger of Chrysler Corporation and Daimler-Benz AG to form DaimlerChrysler is a historical step that will offer Daimler-Benz shareholders exciting perspectives. In addition to participating in the growth of two very profitable automobiles companies, the merger offers the opportunity to benefit from the additional earnings potential that we believe will be generated by the emerged activities of the new company. We have already identified opportunities to increase sales, to create new markets for DaimlerChrysler, to reduce purchasing costs and to realize economies of scale. We are well-positioned to capitalize on these opportunities to increase the earnings power of
Daimler Chrysler AG. In the short term, we see synergies of 1.4 billion that we expect to more than double in the medium term. Even beyond that, given the creativity and inventiveness of our teams, we expect to be able to identify substantial additional benefits as the integration process accelerates” (Schweiger D., 2002).

- Motives and objectives of DaimlerChrysler merger

“By combining and utilizing each others’ strengths, we will have a pre- eminent position in the global market place for the benefit of our customers. We will be able to exploit new markets, and we will improve return and value for our shareholders” (Schrempp, 1998).

Various motives for this merger were established. The first reason was a geographic expansion of the companies in markets where their presence was not satisfying. Daimler had 63 percent of its sales in Europe, while Chrysler sold 93 percent, both needed to penetrate new markets to gain international presence. This was possible through using each other’s facilities, capacities and infrastructure. Moreover, the company’s car brands would not be competing between each other because car models were different from each other and meant to different market segments.

With a merger, Chrysler could consolidate with Daimler in order to survive to the global competition in an industry were overcapacity is chronic. In addition, the strengths of the companies were complementary with on the one side luxurious and high-class cars and on the other side, a low cost-oriented company with a large range of vehicles. Daimler-Benz was also benefiting from a good reputation for its engineering and technology superiority, while Chrysler reputation lied in fast product development and design. Merging all those different characteristics would have been beneficial for both companies.

Resulting from the merger, opportunities for synergies could be created with shared technologies, distribution, purchasing and know-how, and benefit from merged operational costs. Daimler-Benz management board added that the company would reinforce its position with its expansion in United States, and increase its product range, which was according to them reducing the vulnerability of the brand on the luxury market by diversifying its products.
• The strategy of DaimlerChrysler

The main strategy was to benefit from synergy savings in retail sales, purchasing, distribution, product design, and research and development. The merged entity would become one of the biggest three automotive companies in the world within 5 years.

The merged company would work with two headquarters located in Stuttgart and in Michigan. The management control was divided into nine executives, who had voting power on DaimlerChrysler. Schrempp and Eaton would be co-Chairmen for 3 years, and then Eaton would leave the company.

However, three years later DaimlerChrysler’s market capitalization stands about the value of Daimler-Benz before the merger. Its stocks have been displaced from the S&P 500, and Chrysler Group’s share value has decreased by one-third since the merger deal, following considerable money loses.

• Why the merger failed

Linking out theoretical framework with the DaimlerChrysler case can be done through the theory developed by Bligh (2006) to create a sustainable culture after a merger with five steps to follow. One of those five steps is the identification of the 12 integration risks factors. The higher the amount of risk factors, the more complicated the cultural integration will be. In the case of DaimlerChrysler several risk factors were identified such as:

I. M&A ability: this merger was the first Trans-Atlantic one at such a large level
II. Proximity: both companies were located in two really different geographical areas with different cultures, languages and legal status.
III. Competition: the automotive industry is a highly competitive one and competitors are moving fast, so a merger has to be executed fast.
IV. Financial context/business performance: capacity to reach the financial goals.
V. Relative dominance: a merger of equals is always a tricky issue in M&A, due to the dominance of one party on the other.
VI. Ambiguity in power and authority: Schrempp and Eaton were the two leaders of DaimlerChrysler and it led to an ambiguous overall atmosphere in the company.
Many risks related to cultural integration were faced in DaimlerChrysler, which made the process complicated and unsuccessful.

The Culture clash

During the negotiations and the closure of the deal, there was no culture clash. Meetings between the senior managements were remarkable; Germans and American had the same vision of things.

However DaimlerChrysler’s spent several million during the post-merger integration on cultural sensitivity workshops for its employees in order to explain or solve the conflicts that had occurred during the post-merger stage regarding several national culture aspects and to limits its possible negative effects in the future, though some gaps in business practices and management remained unchanged.

During the post-merger process, DaimlerChrysler had to face strong cultural conflicts. Creating synergies and relationship in an environment where different nations, cultures, languages, and traditions were fighting is a hard task. Both companies had different corporate cultures, which were based and influenced by their national culture. Those differences in culture and the conflicts arising from them were proved by several theories, Hofstede and Trompenaars among them.

Indeed, national cultures are reflected in the corporate culture of organizations. The national cultures are shifted to the company culture and can be seen in its working styles, mode of thinking, habits, beliefs and norms. As a result, the national culture has played a significant role in the failure of the merger between the American Chrysler and the German Daimler-Benz due to its influence on the company culture.

Workers of both company started to dislike each other and some Daimler-Benz executives declared publicly that they “would never drive a Chrysler”, while German ones were spitting on American cars on their side.

All those cultural clashes have been lowering or even counterbalanced the savings that were forecasted from synergies between the two manufacturers.

First, it would be interesting to use the five dimensions’ theory of Hofstede to analyze the case in a nation cultural perspective, though this theory is highly contested regarding its
relevance in the culture analysis, it would be interesting to see if Hofstede theory could give an insight to the analysis of the case:

Hofstede states that United States and Germany are countries with a low power distance because of a more equal relationship between leaders and followers in the organization.

Germans, as many European citizens, have high uncertainty avoidance, where a high need of security is needed, organizational activities must be structured, rules are written, lower labour turnover, with less ambitious employees and managers that are risk averse. On the other hand, Americans own low uncertainty avoidance like many English-speaking countries. There is a low need for structured activities, less written rules, a high labour turnover, as well as ambitious employees and managers take accept to be risk-taking (Hodgetts and Luthans, 2003: 117).

Concerning individualism and collectivism, both countries have a high individualism regarding poorer countries. However the tendency to be more individual is higher in the United States. Masculinity follows also the same trend in both countries. They are very masculine in their culture, where recognized values are success, money, earnings, personal achievement and challenges. Finally, both countries are short-term oriented and needs should be satisfied ‘here and now” (Hodgetts and Luthans, 2003).

Therefore, we can state that there are many similarities between both national cultures as Germans and American have similar scores in many cultural dimensions of Hofstede’s theory. Indeed, both cultures are highly individualistic, masculine, short-term oriented and with a low power distance.

However there are slight differences in numbers, which could influence the merger process and lead to some conflict at an international level. Indeed, Germans have a lower PDI score than Americans.

Additionally, Germans have higher uncertainty avoidance and prefer clear objectives, detailed assignments and scheduled activities. Germans also like to be rewarded for their correctness. It is important for Germans to have a clear description of their work and the rules limiting their job with a high level of formalization. In addition, systems of control are more important in Germany than in US, where there is less need for rules and procedures with a lower degree of supervision. US managers are also more risk-taking and do not value the hesitant behaviour of their German colleagues while taking decision. In Germany, workers need to feel secure
about their job, while Americans are more looking for achievement (Abdou and Kiche, 2004). Regarding the masculinity/femininity of both cultures, there are very similar with a tendency to be masculine.

The corporate culture played also a significant negative influence. Mercedes was seen as fancy, special brand while Chrysler’s brands were the poor, blue-collar relations. In addition, the reward system was not aligned at all; American workers earned more than their German counterparts, sometimes four times more. Moreover, corporate hierarchies and values were different between companies.

Chrysler’s cars had the image of American excess and greatness, its brand value laid in its antagonism and risk-taking appearance, produced in a cost-controlled environment. On the other hand, Mercedes-Benz was created in the pure disciplined German engineering with inflexible quality. Sharing platforms and features for these two brands would have made loses in their intrinsic value. Thus the clash was also present between the products as well as within employees. “Corporate cultures were a bit in opposition between the German authoritarian and the American creativity. Chrysler’s management style is more flexible and creative than the more traditional German style and top-down management. Daimler-Benz used to be seen as more conservative, efficient and safe, while Chrysler was more daring, diverse and open-minded. “The Germans embraced formality and hierarchy, from a well-structured decision-making process to the suit and tie dress code and respect for titles and proper names. Chrysler broke barriers and promoted cross-functional teams that favored open collars, free-form discussions and casual names” (Kruckeberg, 2000). Daimler-Benz had a much formal and structured management style, and only conflicts could arise from Daimler-Benz’s attempt to take over the whole Chrysler Corporation and impose its own management style and corporate culture.

The cultural problems were extended to the distribution and retail sales systems, where German Mercedes-Benz dealers were not willing to include “poor” American Chrysler vehicles in their product offering. This probably had obstructed the market penetration of Chrysler in the European Market. As a result, Daimler-Benz remained attached to its basic credo of “quality at any cost”, while Chrysler kept on producing price-targeted vehicles.

During the post-merger process, many misunderstandings happened between Germans and Americans due to different communication styles, planning and decision-making processes, negotiation types, and leadership styles that led to cultural clash (Shelton, Hall and Darling,
The German communication style is more implicit and respects people’s status like title, age, gender, social status than the American one.

Leadership styles were also quite different between both companies, where Germans were more into an autocratic style and workers expecting to be treated appropriately. Other differences are perceptible in the employment practices; Germans are more protected by labour laws and labour unions, oppositely to Americans practices that could seem ruder because of its more brutal hiring and firing practices (Shelton, Hall and Darling, 2003).

Conclusion

At first sight, the merger between the two car manufacturers, the American Chrysler and the German Chrysler, had to be a successful one regarding the possible synergies, strategies and improvement in terms of profit and cash flow. However, the application of those synergies in the reality had been much more difficult than expected. Indeed, the existence of strong cultural differences led to important conflicts, which had been left aside by leaders of both companies. Problems between management teams also complicated the realization of the merger.

Another conflict lies in the term “merger of equals”. Daimler-Benz and Chrysler had always been saying that this merger was a merger of equals. However in reality it was more a German takeover from Daimler on Chrysler. This betrayal made the success of the merger more difficult, because the blind trust given to Daimler did no longer exist in the mind of Chrysler’s executives. The lack of commitment, the fear and the lack of trust had never been taken into consideration by the management and no concrete measures had been taken to care about the human factor.
Moreover, the differences in national culture played a key role in the failure of the merger because those diverse national cultures have an influence and shape the company culture. This case shows that it is critical to underestimate cultural issues in a merger or acquisition, and even more when the merger is cross-border, involving companies from different countries and different national culture. Those cultural issues are often intense and the company must be prepared otherwise they can lead to devastating end for a merger (Kruckerberg, 2000), as shown the case of DaimlerChrysler. In fact, Daimler-Benz and Chrysler did not analyse the possible source of cultural clashes prior to the merger, and not enough solutions and measures were undertaken to solve the cultural conflicts, which led to one of the biggest merger failure in the automotive industry.

“If you are Daimler-Benz, with its enormously strong culture, you can only impose that culture the idea of creating a fused culture, no one believed it even if they had to say it” (Euan Baird, CEO of Schlumberger, in Chancel, Rodgers, and Raynaud, 2002: 27). Indeed, the merger between Daimler-Benz and Chrysler was more a German takeover than a merger of equals.
4.2. Pharmacia AB – Upjohn

• Introduction
This case illustrates the merger of two companies with different national and corporate identities, and shows how culture can create problems in a merger process, and more specifically the national identity. The differences in culture led to different challenges for both companies involved, and created a difficult situation and working environment. However, the merger succeeded and the case illustrates the significance of cultural issues in a merger, as well as how the company managed to surmount those issues.

Cost-cutting is behind schedule, key executives have left the company, and integrating the two companies had been more difficult than expected. This was the situation after the merger of Pharmacia and Upjohn in 1997. Consequently, bad earnings surprises, lousy morale, management upheavals, and an underperforming stock had followed (Flynn et al., 1997).

As Pharmacia & Upjohn shows, going global can give size and synergies but can also lead to painful ends. The merger between Pharmacia AB, a respected drugs company that had a weak presence in the United States, and Upjohn Co., a proud Midwestern company that needed more international business and a new product line, appeared good at first sight. Pharmacia, which was based in Stockholm, Sweden, and had activities in Italy, was of similar size as Upjohn. Both companies were about totally complementary (Frank and Burton, 1997).

Indeed, Upjohn needed Pharmacia’s advanced drugs and Pharmacia needed Upjohn’s distribution network in the United States. However putting the merger into practice was a lot harder. The main ideas of the merger were a highly ambitious cost saving and a downsizing plan that would cut $500 million of costs and 4,000 employees from the payroll in the first year, though those figures may have been exaggerated. Indeed, cultural problems had approximately blown $7 billion-a-year during the two first years after the transatlantic merger of equals (Friedman, 1997).
### Cultural issues

Magnus Lundberg, the ex-head of metabolic diseases at P&U said, “*The merger was like two different species meeting each other*” (Flynn et al, 1997). Furthermore, he added that “*The baby was adopted by the wrong parent, and it could not grow*” (Flynn et al. 1997).

The merger between Pharmacia and Upjohn gave scale, international presence and enhanced the product portfolio. Although it made realize that if you take two companies from different sides of the world, then it is hard to merge them together and create a high-performing single unit. Indeed, many cultural clashed occurred during the merger of both companies regarding their own cultures, their management styles and their systems.

Immediate debate over where to locate the company and what to call it started the cultural problems. Therefore, a geographic compromise was found and the headquarters placed in Britain. Instead of creating a new name, Pharmacia and Upjohn negotiators discussed at length before deciding on the simple name Pharmacia & Upjohn (Friedman, 1997).

Management styles were also affected by divergences. Although executives of both companies agree to say that it would have been hard to overestimate the problems that American executives would have while they tried to implant their U.S. management style on a European business. For example, the hard-driving and mission-oriented American approach that Upjohn executives brought with them to Europe literally shocked the gradualist and consensus-oriented Swedish managers. Insiders state that Pharmacia executives did not answer well to the change, as well as Upjohn CEO, Zabriskie, who was a very tough character, with a more tightly centralized approach to management, while Pharmacia Swedish CEO before the merger, Ekberg, had more a delegating approach. Many Swedish executives were also seeing this merger favouring Upjohn, though it was supposed to be a merger of equals, and those executives left the company (Flynn et al, 1997).

Additionally, U.S. reward systems with stock options were hard to execute in Sweden because of its heavy tax structure. In addition, cultural problems concerned also vacations. The American managers from Upjohn could not understand how their European colleagues could take an entire month of August for vacation (Friedman, 1997). Indeed, Swedes used to take off during the entire month of July for vacation, and Italians take the entire month of August off. As Upjohn employees were Americans and not Europeans, they had to cancel a series of meetings because their European colleagues were on vacation (Frank and Burton, 1997).
In addition, Swedes were irritated with having to write detailed monthly reports for the Americans. At same time, Americans were shocked about the Europeans’ opposition to Upjohn’s strict policy of drug and alcohol testing (Frank and Burton, 1997). Indeed, At Pharmacia’s Milan office, wine was poured freely in the dining room of the company (Schuler et al., 2004).

According to Mr. Ekberg, the Swedish-born chief executive of Pharmacia & Upjohn, both cultures had different traditions. He believes that Europeans are much more international and are used to work across borders in different languages and treat people in a different way. Americans are not really international because of their huge home base. And even though American companies sell their products abroad, it does not make them international. As a result, the internationally skilled Pharmacia managers were astonished by the lack of international savoir-faire and close-minded attitude of the Upjohn managers. Indeed, managers in European companies are used to work across borders and tend to be more flexible and adaptable than U.S. managers (Schuler et al., 2004).

American executives were having several troubles with European managers. While the American style was charging hard, aiming high and paying a lot of attention to accountability, Swedish managers were used to be closer to people, looking for more feedback from the staff, and were not acculturate to the American business culture. Americans had more can-do approach, which means they try to overcome problems as they arise. On contrast, Swedes may be slower to start. They would rather sit down and thinks about the problems that could arise, and once they are sure they can overcome them, they will start working.

Lindkvist (in Bjerke, 1999) has compared American and European managerial style and found out that:

**Figure 13: Comparison of American and European managerial styles**

<table>
<thead>
<tr>
<th>Managerial dimensions</th>
<th>USA</th>
<th>Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of cooperation</td>
<td>Competition</td>
<td>Cooperation</td>
</tr>
<tr>
<td>Initiative</td>
<td>Personal initiative and decision making</td>
<td>Collective decision-making</td>
</tr>
<tr>
<td>Rights</td>
<td>Individual rights</td>
<td>Collective rights</td>
</tr>
<tr>
<td>Role of company</td>
<td>To promote personal goals</td>
<td>To promote societal goals</td>
</tr>
</tbody>
</table>

Source: Bjerke, 1999: 213
If we link the figure 13, which compare American and European management styles, with the description made above of the differences between the management of the American Upjohn and the Swedish Pharmacia, several analysis can be made. Indeed, Upjohn’s managers were more into a competitive working environment where individual rights and goals were more valued. This management really contrasts with the Scandinavian management, which is more oriented on cooperation, collective decision, consensus, and where society is more valued than the individual itself (Bjerke, 1999).

Additionally to clashes in management styles, the creation of a company around three centres (Michigan, Stockholm, and Milan) made the cultural clash more propitious. Furthermore to language problems, the management was incompatible since all entities were working quite independently. A part the differences between the Swedish and American management styles, other behaviours were leading to conflicts: Americans were more proactive and holding individuals responsible for their obligations, while Europeans were more team-oriented and discussing before acting.

“We choose three sites: US, Sweden and Italy. Italy was more from Pharmacia, but did things as the Old Italian way. These 3 major sites, business Units, were called the PPC: Pharmaceutical Product Centre. But they had the worldwide responsibility for the entire business and research. If you oversimplified we had a situation where, in US, we had the Upjohn way of doing business, in Sweden, Kabi Pharmacia way and in Italy, the Carlo Erba way. New P&U was more just that you saw in the annual report. You can see it with the advertisement what the top management talked about. But the typical person in the organization did not see that in the daily action.” (Gunnar Forssell, senior director of Corporate Strategy Department at Pharmacia & Upjohn during the merger, cited in Got E. and Sanz F., 2002). Consequently, small cultural differences between American, Swedish, and Italian companies and employees led to frustration and anger that influenced operating performance. It also shows that it is not always an appropriate solution to keep more than one headquarter, which may lead to conflicts and make the company structure more complicated.

In order to analyze the differences and similarities between the American and Swedish national cultures, it is interesting to look at how Hofstede has classified those two national cultures and classified them.
Regarding the power distance, there is not much difference between both cultures, though in America leaders receive more power compared to the Swedish leaders, which are closer to their employees. In addition, the American culture is characterized with a higher degree of individualism, in contrast with the more collectivistic Swedish culture (Hofstede, 1991).

Where we find a large difference resides in the masculinity and femininity part. Indeed, the American culture is more masculine and gives more value to material success and assertiveness, which is very different than the Swedish culture corresponding more to a type of culture implying modesty, tenderness and quality of life. Another dimension that could have an impact on the different management styles is the uncertainty avoidance, which shows that the Swedes have a lower need to predict and a lower dependence on rules than Americans (Hofstede 1991).

Concerning the last point, long-term orientation, there is only a small difference between both cultures, which may make it insignificant to analyze. However, even if there are several doubt and criticism on Hofstede’s theory, it shows that there are several differences between the American and Swedish culture, which should be taken into consideration and not neglected in order to make the merger process smoother (Hofstede, 1991).

Chancel, Rodgers, and Raynaud (2002) explained several reasons why leaders do not succeed in managing corporate culture have been. Among those reasons, some can be related to the case of Pharmacia & Upjohn. Indeed, according to Gunnar Forsell, there was a lack of awareness and understanding of the cultural issue: “There were a good mix of people in London but the headquarters were small and they had limited ability in the entire organization. When things go wrong it is so easy to blame culture because no one really know what it is anyway” (G. Forssell, cited in Got E. and Sanz F., 2002). Leaders do not seem to be
conscious or understand the cultural issue. Consequently it was not easy for them to recognize culture, anticipate its dissimilarities and its consequences in order to lead the cross-border merger to a success (Chancel, Rodgers, and Raynaud, 2002). In addition, Buchanan (1989) states that the first step in managing across culture and in cross-border mergers and acquisitions is to recognize the importance of the cultural aspect. However in the case of Pharmacia & Upjohn, the cultural issue has been underestimated and led to several integration difficulties.

“The reality is that some people are unused to operating in a global environment, and any one who traveled a lot and meet a lot of different nationalities, they can accept there is a difference but the same people said that if you want to focus on similarities, at least, there is much similarities” (G. Forssell, cited in Got E. and Sanz F., 2002). In contrast to European managers, Americans were not used to work across different countries. This resulted in a lack of cultural skills. However managers having experience abroad are more efficient to manage global activities and understand cultural diversity (Chancel, Rodgers, and Raynaud, 2002). According to Forssell (cited in Got E. and Sanz F., 2002), people at Pharmacia & Upjohn did not possessed intercultural skills and were not used to work in a global environment. Thus, this lack of international experience has made more difficult the integration of the two cultures together. This statement is reinforced through the theory of Lees (2003), who considers that culture understanding and culture experience are closely related, and that cross-cultural competencies are required in order to manage cross-border activities.

“One thing that was challenging is that if you look at the old Pharmacia site at that time, they went trough a lot of mergers, so the people typically working there was used to the company reorganizing the structure. They had practical experience in reorganization, mergers... People from the old Upjohn had then to be part of that. It has been the same company for 100 years. Every thing was decided in Kalamazoo Michigan. Everyone starting working when they were 19-22 years old and they retire when they were 62: Very few people. No one was used to doing things in a different way and you have to participate in a group. Just for a mindset, it was a mindset, it was not about the nationality, the people were simply not used to dealing with outsiders in a general set. The two sites were different, each had strengths: longevity, having the ability of doing things in the same way. The practical experience of being forced to reconsider how things are done, if we look at the internal processes, financial systems, different reporting relationship...that was something really difficult specifically from the old Upjohn environment” (G. Forssell, cited in Got E. and Sanz F., 2002). In fact, people
at Upjohn were used to work always the same way and were not used to do things differently and take part to a group project with outsiders. This does not only reside in their national culture but in their own mindset, and it was hard to reconsider the work and habits that Upjohn employees have been doing for decades. Consequently, it would have been appropriate to try to allow understanding between the different cultures through “mapping”, “bridging” and “integrating” as suggested in the MBI Model (Henry, Lane et al., 2005). Thos three steps create awareness of different cultural aspects, and the different cultural dimensions that exist, which would have been necessary to Upjohn’s managers. Therefore, communication between the two counterparts is possible, and the integration step finalizes the practical aspect through participation, conflicts solving and shape a common view.

Within the merger process, American managers were not prepared for a cross-border merger, and especially with a company that has different ways of managing and working. Since merging means working together, the cultural interaction within the new organization made the merger integration difficult and costly.

• The solution

According to Ando (in Schuler et al, 2004), a solution would have been to move American and European managers back and forth across the Atlantic, even for short journeys. It would have speeded up the development of contacts, and develop understanding and more respect for each other.

In 1997, after accumulating two years of huge losses due to cultural and management, Pharmacia & Upjohn was looking for someone to take back the sinking company on the surface. Therefore the company hired Fred Hassan, a specialist in the pharmaceutical sector, to establish a better management and create a unique corporate culture. In May 1997, Hassan became the CEO of Pharmacia & Upjohn and started by building a unique headquarter instead of having three headquarters competing between each other, which was according to him a key factor in a merger. This unique headquarters was located in the United States, which was the main and most important market for the company. With only one person responsible for the legal department, one for the financial department and one for the human resources department, the company was becoming coherent as a whole.

Daily activities were now centralized and all departments and people were working and collaborating together. Hassan’s approach to Pharmacia & Upjohn was not a lucky hit or
miracle. He assessed and recognized correctly the company and created a coherent whole with a unique headquarter, centralized activities and collaborating people and departments, which were now linked together. The corporate culture and the management at the company were now consistent enough to work efficiently and make the company successful.

However when Hassan decided to relocate the headquarters in the United States, the company had to adapt its managerial approach in order to make the different culture work together. The organization decided to take the assimilation approach and keep the Americans management style within the company. The assimilation approach is part of the four possible types of acculturation (Assimilation, integration, deculturation/maginalisation, separation) made by Nahavandi and Malekzadeh (1988). The assimilation approach implies that one of the two companies involved in the merger renounces to its old culture, and finds the partner’s culture better fitting to the new merged entity.

Consequently, the all company had to accept and adapt its culture and the differences resulting in order to reach this agreement. Gunnar Forssell stated “There are still many people from Sweden Pharmacia in high position. They are much fewer from Upjohn environment. That I think the company now is certainly very American, but in Americans way” (Got and Sanz, 2002). With a single culture, the organization could work efficiently and provide a sense of identity, which encourage employees’ commitment.

The Pharmacia & Upjohn case shows that culture is a critical issue in mergers and acquisition and should not be considered as a soft issue. The merger between the Swedish Pharmacia and the American Upjohn almost failed because of incompatibilities between Swedes and Americans that needed to be managed in a certain way and forecasted before closing the deal as soon as possible. However, thanks to Fred Hassan, his experience of the pharmaceutical sector and his ability to identify the company needs.

In the end, the cultural problems of the merger between Pharmacia and Upjohn generated costs up to $200 million higher than projected and the firm’s stock had collapsed on Wall Street (Frank and Burton, 1997). According to Art Atkinson, former director for clinical research and development (cited in Frank and Burton, 1997), “there was probably an underappreciation... of these cultural differences.”
Pharmacia and Upjohn today

In April 2000, Pharmacia & Upjohn merged with Monsanto and Searle creating Pharmacia, a new strong competitor in the pharmaceutical industry. Three years later, Pharmacia Corporation and Pfizer Inc started to operate as a unified company and created one of the world’s fastest growing and most valuable companies as a single global organization.

This case has shown the several challenges that leaders and managers face while dealing with cross-border managers. Cultural clashes are likely to occur when there are differences in national and social cultures. Those cultural differences can be disastrous for the company and its shareholders, and should then be addressed in the early stages of the merger. In that case, the post-merger was more effective if a new company culture was created from the existing company and national cultures, which made this company more American than Swedish afterwards, instead of creating the perception managers have.
4.3. The Volvo-Renault case

The case of Renault and Volvo has resulted in the failure of the merger. This failure lies in the political aspect, as well as in the cultural one. Here, we will focus on the cultural divergences between Renault and Volvo regarding the corporate culture and more specifically the national culture. Indeed, several cultural conflicts created problems in the way of managing the organization and made the deal failed between the Swedish and French organization. In addition, the case helps us to introduce the notion of nationalism in the case studies as the companies had suffered from it through the company’s members.

During the late eighties, the truck division of Renault was negotiating with Mercedes and Volvo in order to find a partner. The reason of this approach was for Renault to gain in size and be less vulnerable. Indeed, in the early 1990’s, the economic context was tough due to a pessimistic market and Japanese competitors penetrating the European market at same time. In order to survive, it was necessary for companies to seek for alliances, involving restructuration and concentration. The Swedish manufacturer, Volvo, had a good brand image but its size was too small to survive and continue its activity alone. Those reasons made Volvo, the right potential partner for Renault.

A cooperative alliance between Volvo and Renault could have been beneficial for both companies. Undeniably, Renault owned a large range of cars and its geographic presence was complementary with Volvo, which was mainly present in up-market vehicles. Renault was mainly established in Southern Europe, Maghreb and Latin America; Volvo was mainly present in Northern Europe and Northern America. The geographical compatibility between both companies was tremendous and could have led to massive synergies. Furthermore, Renault was strong where Volvo was weak, in small cars and in the south of Europe, and vice versa with Volvo strong in the truck market while Renault was not.

In 1990, the Swedish vehicles manufacturer Volvo and the state-owned French vehicles producer established a strategic alliance. Renault bought 25 percent of Volvo Car and 45
percent of Volvo Truck. As a counterpart, Volvo bought 20 percent of Renault’s car division and 45 percent of Renault’s truck division (LesEchos, 2007).

The cooperation between the two corporations was working well and nothing seemed to break this alliance. Indeed, both companies were constantly thinking about linkage and possible synergies, setting up common structures for the car division. This enthusiasm about the car division could have led to a unique organization for Renault and Volvo. Indeed, in 1993, Louis Schweitzer, chairman of Renault’s supervisory board, and Pehr Gyllenhammar, chairman of Volvo’s board of directors, revealed their project to establish a merger between the two companies. The merger would build a new company Renault-Volvo RVA that would become the sixth vehicle manufacturer and the second truck manufacturer. The project planned the development of shared production plants, distribution systems and employees’ talents, and consequently cut costs. Renault would own 65 percent of the merged company and Volvo 35 percent (LesEchos, 2007).

After the deal was made, some cultural issues appeared. According to some analysts, those issues were regarded as cultural incomprehension. Renault and Volvo’s executives ignored their differences in the national and organizational cultures. As we have seen in the theoretical part, when two companies are working together, they have to be aware that several cultural incompatibilities may exist between them at different levels such as management, authority, reward systems and communication (Gumy, 2007).

First, there was a distinction in France and Sweden regarding the public weight and the government’s role. Indeed, in France the government controls a large part of the industry, while in Sweden the system is more liberal and the Swedish government controls only a small part of the industry. Additionally, French people are considered as revolutionary, where individualism, ambition and public opinion are basic values. On contract, Swedish people are more modest, with a will to agree on a common opinion by always seeking a consensus. Inside Swedish companies, the structure is decentralized and there is more balance between powers, as well between the board of directors and the executive. In Volvo, Gyllenhammar wanted to remove this balance of powers, he tried to manage the whole company on his own but he failed to do so. In Sweden, it is not an appropriate behaviour to manage everything; parity in the tasks and decision process is necessary. Therefore, Gyllenhammar was criticized and recognized as a dictator.
We are aware that Hofstede’s theory can be criticized, however we wanted to have a look at how relevant the theory was in the Volvo-Renault case, and how coherent it would be and fit with what we have stated before regarding the French and Swedish cultures. Having a short look at Hofstede’s cultural dimensions represented on the figure below, we can see that the French culture is characterized with a much higher individualism, while Swedes are more group-oriented. Additionally, we see that the power distance is higher in France than in Sweden. Though we may question ourselves regarding the reliability of Hofstede’s theory, we can see that a coherent analysis can be made with his cultural dimensions, and it may give a cultural understanding to people and show that cultural diversity exist between countries and should not be neglected as it was in the case of Volvo-Renault.

Figure 15: Sweden and France Hofstede’s cultural dimensions

Source: Itim International, 2010

Still regarding the differences in national cultures, there was another factor that made the merger failed: nationalism. In the theoretical part, we have explained that nationalism can have a negative impact on cross-border activities and create a barrier to exchange. In fact, nationalism expresses a way of thinking and doing things that looks normal for people living within the same country, and seems bizarre for the people living in another country. In the course of nationalism, people tend to separate the two groups and build a positive image of them and see others as inferior, which may lead to social consequences as we have seen in the case studies (Hall, 1995).

In Europe, nationalism is really present and has often been an obstacle for companies looking for a merger or an acquisition in order to consolidate the industry. The problem still remained in the case of Volvo and Renault. Volvo was perceived in Sweden as the jewel of the Swedish
industry that was part of the national heritage and belonged to it. Swedes and Volvo’s employees felt that the symbol of the nation’s industry was given to foreigners that might not mind about the interests of Sweden and its workers. In the case of the merger between Renault and Volvo, the Swedish nationalism was the strongest because the French government, which would have a significant control on the merger entity, owned Renault. This led to a fear for the Swedes to lose their identity through the merger. Naively both companies put too much emphasis on the financial and industrial features, and not enough importance on the national and corporate values.

The failure of the merger between Renault and Volvo illustrates that national and corporate cultures, which is deeply influenced by the national culture, are important in order to merger successfully two companies from different countries and cultures. Each company is rooted into its national culture. This creates specific values, norms and ways of doing management different from a company to another. Therefore, before considering a cross-border merger it is necessary to pay attention to cultural aspect in order to create a new corporate culture, which might share the different national culture with respect.
5. Conclusion

Looking back at the literature and the success rate of merger and acquisition, we may say that most operations of mergers and acquisitions are not successful, and we may even state that the successful ones are rare exceptions. There are several aspects that influence the success or the failure of a merger: cultural, organizational, economic and political. Among those aspects responsible for failures, the cultural one has been studied deeply in this thesis, in a context where the merger is cross-border with different national identities involved.

Cross-border mergers are more difficult and trickier to manage than domestic mergers due to divergences in corporate culture, reward systems and organizational structures, which are influenced by the national culture (Blaško, Netter and Sinkey, 2000). This is why there exist several theories about cultural integration, how to deal with and what to be aware of. However, cultural problems in mergers still remain problematic and still only few of them are totally successful. Therefore it is crucial to have the right understanding about theories and their application in practice. Having many theories about mergers and acquisitions and how to deal with the cultural aspect does not mean that while applied, those theories are undoubtedly working. Indeed, they are still good guidelines for the integration process, but there is not a guaranteed solution for success. Used in the right context in which they are made for, theories may deliver you ideas, awareness and suggestions, which might help the merger to be successful. However, every deal is unique and you must be aware that you will never find any theory or model that will match to 100% with your situation.

Regarding cross-border M&A during the integration process, the cultural aspect plays a significant role and influences the results of the merger. The purpose of thesis was to determine the influence of the national culture in which the company evolves on the case of a merger or an acquisition process, and determine how it would be possible to reduce cultural clashes and turn culture into an advantage. In order to show the influence of national culture on mergers and acquisitions, we have chosen to discuss well-known cases, which were considered as a failure regarding the cultural aspect: DaimlerChrysler, Pharmacia & Upjohn and Volvo-Renault.

As seen in the case of DaimlerChrysler merger, cultural diversity proved to be more important than previously anticipated between the Germans and Americans. In addition, the case has shown that the merger of two companies having at first sight very good reasons for merging
due to complementarities and possible synergies could be led to a failure due to cultural conflicts. Indeed, being complementary on paper is not sufficient to succeed in a merger or an acquisition. Because employees of both merging entities will have to work together in a new and different environment, communicating and managing cultural differences will become key success factors. Bridging two cultures implies a lot of communication, which is considered as one of the most important tools in the integration process according to many theorists.

Several recommendations can be made to managers in order to deal more effectively with mergers, and make the integration phase smoother. However, it is important to say that those recommendations do not imply success systematically and other factors are influencing the results of a merger. However taking those recommendations in mind may facilitate the integration process. The recommendations to be suggested are:

- **Cultural awareness**: Being sensitive and aware of cultural differences are important in order to prevent and anticipate cultural issues, and clashes or misunderstandings between the members of both merging entities. Moreover, the language barrier should not be forgotten and should be considered through language courses or the use of a common language. Indeed, too often a lack of awareness regarding the cultural dimension is observed in managers.

- **Recognize the importance of culture**: Cultural differences are the biggest source of problem in integrating cross-border acquisitions, and according to a study, only 35 percent of senior executives ranked cultural differences as the first problem in cross-border activities, and only few companies possess a cultural integration plan in the case of a merger (Buchanan, 1989). Thus, we could say that cultural problems are, wrongly, not recognized as significant as they are. This results in a lack of understanding from managers concerning the cultural dimensions.

- **Top-down and constant communication**: Clear and open communication mainly avoids confusions and rumours in the company, which could create an insecure and unpleasant environment. In addition, planned changes and common shared vision of the company create less anxiety in the company and people may work more effectively.

- **Effective planning**: Planning should be done carefully and started early in the merger process, including realistic objectives and reasonable timeframes, which should involve all the relevant aspects of the companies like people, organizational systems
and procedures. Moreover, planning how to align and implement systems, structures and processes is necessary.

- **Retaining key people:** The company should put emphasize on retaining talented and skilled workers, which are essential assets for the company.

- **Training and development:** Managers should be trained on how to manage mergers and acquisitions and, in this context of cross-border M&A, on how to manage cultural diversity. It would give them an understanding of merger, as well as the cultural dimension they need. Additionally, language classes can be very useful in order to create an easier mutual understanding in the merged company.

Through the case of Pharmacia & Upjohn, we have seen that two companies from developed countries, which are complementary in many ways and that could build important synergies if merged together, may go through difficult cultural problems and almost fail in the merger process. Indeed, many clashes occurred during the merger between Pharmacia & Upjohn regarding their own cultures, management styles and systems, and caused a huge loss of money.

Additionally, we could say that such as in the DaimlerChrysler case, the managers of Pharmacia & Upjohn were obviously aware of cultural differences but had underestimated the problems that could arise from the cultural differences between the companies. While Americans were trying to implant their management on their European colleagues, they had to face many cultural barriers. This is why understanding the others culture is primordial, while working on cross-border activities and managers should be trained to manage those cultural issues.

Finally, we could say that managing successfully a merger or an acquisition is not an easy task, and the expected results rarely correspond to the expectations made before the deal. Leaders involved in mergers and acquisitions take a tricky mission in hand, which has a big chance to deliver bad results, though we should also not forget that a successful merger could be of a great benefit for the companies involved. This may explain why mergers and acquisitions have always been popular for the benefits they can bring to companies, though how difficult it is to manage them.
6. Prospective researches on the topic

Mergers and acquisitions are cyclic activities. Since 1885, there have been six important waves of mergers and acquisitions. Analysing these waves do not forecast the future but at least allow us to believe in a 7th wave in 2010. This part of the thesis about the prospective researches on the topic of cross-border mergers and acquisitions is mainly based on historical facts, as well as speculations from analysts regarding the future of the merger and acquisition sector. Indeed, in this part we try to open up different eventualities for the future. However, it is necessary to have in mind that we live in a quickly changing business world, in which it is quite difficult to give precise predictions. Thus, it is important to understand this part of the thesis as speculative.

The 6th wave of mergers and acquisitions took place during 2003-2007. It ended while the financial crisis started in 2008. The year 2009 was a difficult period for the merger and acquisition activities. Indeed, it has been a very quiet year, though it started with two big deals in the pharmaceutical sector: Pfizer/Wyeth and Merck/Schering (Hazgui, 2010).

Figure 16: Continental comparison of M&A deals from 2005 to 2009

![Continental comparison of M&A deals from 2005 to 2009](source: mergermarket, 2009)

In fact, during the past two years merger and acquisition activities have dropped down, highly influenced by the impact of the financial crisis of 2007-2010. This is not really surprising if we take into consideration that the last financial crisis is seen as the biggest economic crisis in the history, which affected the economy globally. Consequently, in the Asian region the
volume and simultaneously the value of M&A deals have dropped down from more than half until the end of the first quarter in 2009, compared to the figures in the end of 2007. Whereas in Europe and North America the volume and the value of the merger and acquisition deals dropped down to a third of the figures of the last quarter of 2007 as shown in Figure 16 (mergermarket, 2009).

Nevertheless the last financial crises proved that after the recovery of each crisis there is a period with a high amount of M&A deals. Indeed, there are two recurring phenomena, which are noticeable when looking back in the historical of the merger and acquisition waves, we described in the thesis. First, the timeframe between the occurrences of two M&A waves is getting shorter and shorter. While the first four merger waves occurred at intervals of 20 to 40 years, the intervals between the fourth and the fifth and between the fifth and the sixth wave were less than ten years (Sudersanam, 2003). Moreover, the second thing to recognize is that every M&A wave was ended through a serious economic crisis such as the first merger and acquisition wave, which was ended by the World War I, the second by the collapse of the NYSE in 1929, the third by a slowing down economy in 1973 caused by the oil crisis, the fifth by the collapse of the equity market in 2000 and the sixth wave notoriously by the financial crisis in 2007 (Hyung Rok Him, 2007).

Looking back on the last eight month, the M&A market history shows an upturning trend in all economies all over the world since October 2009 and furthermore some big M&A deals were realized few month ago; Merck a German pharmaceuticals and chemicals enterprise, closed a $7.2bn deal to buy Millipore, a US laboratories supplier and in the food sector, Kraft an big American food company paid $18.9bn to acquire the Cadbury, a UK chocolate producer. There exists still too much volatility in the M&A market what slows its recovering process a bit down, because it is quite difficult for the bidder to value the target (Saigol, 2010).

Considering the historical facts we mentioned above, we may believe in the occurrence of a new wave of mergers and acquisitions following the crisis of 2007-2010, which could be considered as the seventh wave of M&A in the next few years. Indeed, according to many analysts, 2010 will see the comeback of mergers and acquisitions, and the beginning of a new wave. However, it does not mean that we will know the high amount of deals of 2007. Several factors may speed up the merger activities such as low interest rates, plentiful liquidities, and an improving economic situation. Indeed, companies have been deprived of mergers and
acquisitions for the last two-three years, due to the difficulty to obtain loans, to increase their equity, or because of unstable economic environment (Hazgui, 2010).

However counter-arguments for this new wave of mergers and acquisitions may exist through the possible national bankruptcy of Greece for instance. Indeed, the Greek government asked the European Union officially for financial support in the end of April. The European Union in cooperation with the International Monetary Fund (IMF) decided a financial support of 45 billion Euros each year for the next three years. Experts are afraid that now other countries such as Portugal and Spain, with similar ramshackle financial shape will follow the example of Greek. In the best case, Europe succeed in accomplishing regulations against speculation, Greek succeed in reform its budget and is consequently able to pay the money back. But in the worst case, Portugal, Spain and Italy get also in troubles and as a consequence the European Union will have to struggle a new financial crises, beside the fact that it has to support these countries financially, also because a lot of banks and insurance companies allowed credits to these countries. This crisis would be a big threat for the European Union and its common currency the Euro. Hence the dimension of the crisis and the number of involved banks cannot be really defined now; it is hard to prognosticate if other countries outside the EU would be affected too. But considering the linkage between the banks in Europe and the US, an involvement of the United States could be expected. However, a new financial crisis in Europe, which may have an influence on the global economy, could slow down the recovery of the merger and acquisition market (hartaberfair, 2010).

Among the region, emerging countries has suffered less of the last financial crisis than Europe and U.S. Thus, we may think that emerging countries will take advantage of their better shape to use mergers and acquisitions to create value and grow up. Indeed, during the last decade we have seen an increasing tendency of mergers and acquisitions between emerging countries and developed countries; for instance, Arcelor-Mittal, Tata Motors-Jaguar, Tata Motors-Land Rover, and more recently Lenovo-IBM among many others. Moreover, many Chinese and Indian companies are nowadays showed their will to make strategic acquisitions in the United States and in United Kingdom. Currently, two Brazilian companies, CSN and Camargo Correa are seeking for the acquisition of the Portuguese company, Cimpor, established in the cement market (Hazgui, 2010).

Nevertheless, following the trend of the last years, a change in the distribution of power and money in the M&A markets has already started and might continue even stronger in the
future. While the Asian countries were in the beginning of the financial crisis in 2007 still far behind Europe and North America, concerning the volume and the value of the executed deals, they took the lead for the first time in the end of the first quarter in 2009 as shown in Figure 16 (mergermarket, 2009). While in the second half of 2009 the number of cross border deals executed by companies located in developed countries was still declining, the numbers of deals executed through enterprises placed in emerging countries was already increasing. In the first six weeks of 2010, $91.2bn of M&A, 43 per cent of global M&A volume, was executed in emerging markets such as Brazil, India and China (Saigol, 2010).

We think that emerging countries such as the Brazil, Russia, India and China (BRIC), will not get as much affected as the Western countries by a new European crisis if the worst case in Europe will become reality. Our belief is based on the fact that emerging countries got less affected by the last financial crisis (Dieter, 2009). This is caused by the fact that their financial markets are less dependent on the Western markets. Furthermore they have started to build a strong connection between their own financial markets. Additionally the investments of the banks in these countries are distinctly fraught with less risk, compared to their Western counterparts (Kose & Prasad, 2008). These may enable them to invest and acquire other companies, even if there is a new crisis in Europe occurring. As a matter of fact, a European crisis could be also an opportunity for the emerging countries to buy enterprises for less money than they would have to pay now.

The fact that emerging countries will play a more and more important role is another indication why we have a faith in a seventh wave. This wave will be characterized by a focus on cross-border and especially horizontal mergers, since these countries are looking still for technologic improvements through acquisitions. The pursuit of technology combined with big governmental support is already an issue for the occurrence of a M&A wave according to the PEST-Model, we mentioned before. Referring to the Economic Disturbance Theory of Mergers, other companies especial in the Western world will follow their lead for fear to be left behind the fast growing merger and acquisition activities of the emerging countries.

The French newspaper, Le Figaro, is as well stressing out the importance of emerging countries in the new wave of mergers and acquisitions, stating that operations from developed countries to the BRIC will increase, and the other way (From BRIC to developed countries) even more. If operations start to increase between developed and emerging countries, we may wonder how big the cultural gap between them will be, regarding merger and acquisitions
activities, if it is already very tricky and difficult to succeed when two companies from
developed countries with an assumed similarity in cultures meet a lot of cultural problems
during the merger process (Rabreau, 2009).

This trend towards cross-border M&As will put a special, maybe unprecedented emphasis on
the management of different cultures and thus on the understanding and the management of
national cultures as well. In our cases, we have pointed out the difficulties in cross-border
M&A deals. These deals were all done between companies located in North America and
Europe or within the European Union. These countries are supposed to have a quite similar
culture and nevertheless the small dissimilarities between these countries have led to the
failure of deals, because they were treated in the wrong way. Now with the empowerment of
the emerging countries new market players with even bigger dissimilarities concerning
cultural issues are entering the merger and acquisition market. All these make us believe, that
culture in general, national culture in especial and all its subcultures, such as corporate culture
as well, will play a very important role to be successful in merging enterprises over cross-
borders in the future.
Reference List

Books with one author


**Books with two or more authors**


**Scientific and journal articles**


---

**Scientific and journal articles from electronic sources**


Mergers and Acquisitions. Available at:
[Accessed 21 March 2010].

Saigol, 2010, Confidence Rises. Financial Times. Available at:


University Thesis:


Videos:

[Accessed 03 May 2010].
On 1 January 2010 Växjö University and the University of Kalmar merged to form Linnaeus University. This new university is the product of a will to improve the quality, enhance the appeal and boost the development potential of teaching and research, at the same time as it plays a prominent role in working closely together with local society. Linnaeus University offers an attractive knowledge environment characterised by high quality and a competitive portfolio of skills.

Linnaeus University is a modern, international university with the emphasis on the desire for knowledge, creative thinking and practical innovations. For us, the focus is on proximity to our students, but also on the world around us and the future ahead.