Cultural Integration in Cross-Border Mergers & Acquisitions

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UNIVERSITY OF TWENTE.
“Speak with one voice”

“Pragmatic ways of working to bridge cultural differences and achieve deal synergies quickly”

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From Philips cultural integration &change management handout
Abstract

Billions of dollars are involved in the execution of mergers and acquisitions between companies, especially when they take place between different cultures. In literature it can be found that a culture difference is a potential catalyst to the success or to the failure of a merger or acquisition. In this work these cultural differences are studied in more depth. In a literature review, different theories in this area are related and this will give insight into the following aspects: culture conflict; cooperation between two company top managers; misunderstanding and lower performances; polarization, negative evaluations of counter-parts, anxiety and ethnocentrism between members of the acquiring and acquired top management.

The research consists of both a literature study and interviews with different companies. Results of the literature study show that cultural differences, especially of national nature, play an important role in the integration process. It appears that cultural differences not always have a negative impact, but they can also positively influence the integration process. From the interviews, it became clear that every relevant aspect of the integration process as found in literature is subjected to the influence of cultural differences.

Also strategies are presented that can be applied to bridge the cultural differences and to turn the negative influence to their advantage. This can be accomplished by adopting tools to facilitate the cultural integration, leadership, cultural learning and information system. Moreover, in an era of globalization, this study contributes to company management practice by expanding across national boundaries through transformation into a new organizational culture.

Keywords: culture, integration process, merger and acquisition, national culture, Hofstede 5 dimension, cultural integration, cultural learning.
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Abbreviations
M&A = Merger and Acquisition
PDI = Power distance
UAI = Uncertainty Avoidance Index
LTO = Long Term Orientation
IDV = Individualism / Collectivism
MAS = Masculin / Feminin
PWC = Price Waterhouse Coopers
GM = General Manager
NL = Netherlands
IM&A = International M&A
DM&A = Domestic M&A
NGO = Non-government Organization
NVI = New Venture Integration
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1 Introduction

1.1 Background

A cross-border merger or acquisition (M&A) has become a popular strategy for firms to enter foreign markets. In the past thirty years, an increasing amount of cross-border M&A activity has been observed, which can be attributed to industry consolidation, privatization, and the liberalization of economies (Boateng, Wang & Yang, 2008). We can see increasing M&A from existing data, such UNCTAD (2000) statistics show that cross-border M&A as a percentage of foreign direct investment rose from 52% in 1987 to 88% in 2000. In the first three months of 2007, the global volume of mergers and acquisitions reached $1,130 billion. In 1999, cross-border M&A is about $1.4 trillion, approximately 40% of total acquisitions that year (Shimizu, Hitt, Vaidyanath & Pisano, 2004).


However, as Yong & Tian (2007) reported, 70% of international M&A failed. When scholars are dedicated to find out the determinants of success of M&A, most of their research shows that the integration process of the firm in the new environment is essential to the success of cross-border mergers and acquisitions. Empirical research presents the same results. According to Sharivastava, the survey shows that one-third of all acquisitions fail due to the integration problem (Hopkins 1999). A survey of more than 200 European chief executives found that the “ability to integrate the new company” was ranked as the most important factor for acquisition success.” Interestingly, the factor of integration was rated significantly higher than financial or strategic factors such as "the price paid" (Cartwright & Cooper, 1993).

Due to the extent and the impact of the topic, M&A are widely discussed and simultaneously many disciplines are involved. Various scholars contribute with differing perspectives to the rising amount of literature on M&A. Related topics are for example: national culture differences, government policy, business operation or market characteristic. The value of international expansion and cross-border M&A from a resource-based perspective are also examined and it becomes clear that companies will confront the risks, such as “liability of foreignness” and “double-layered acculturation".
However, the main body of previous research focuses on financial and strategic factors for explaining the success and failures of M&A. Although research on organizational and human resources has increased in prominence in recent years (Stahl and Voigt, 2008), the impact of different cultures and the conflict of different cultures as important factors have not been studied sufficiently yet.

Most prevailing theories that are referred to in research on M&A (like Shimizu, Hitt, Vaidyanath & Pisano 2004 did), are the theory of transaction cost economics (Williamson, 1986) and ownership-location-internalization framework, which together form the dominant theoretical foundation of this cross-border M&A research. Built upon the transaction costs theory of Williamson (1986), the concepts of uncertainty and information asymmetry are also introduced into the research on M&A because asymmetry in information hinders companies in reaching their strategic goals in foreign markets.

Culture, as implied by Jarnagin & Slocum (2007), Forese, Pak & Chong (2008), is one of the key determinants of M&A success and cultural incompatibility is widely reported as a root cause of a poor merger (Cartwright & Cooper, 1993).

The cultural conflict of cross-border M&A has attracted the attention of me personally. When I worked in Evonik-Wesslink; a joint venture between a German company (Evonik) and a Chinese company (Wesslink) for manufacturing silica with Evonik holding a 60% majority share, I witnessed the cultural conflicts between the partners from Germany and China. The Chinese side complained that the German side did not understand the Chinese culture and this led to serious communication problems. This experience prompted me to do more research on the role of culture differences in cross-border M&A.

A lot of literature addresses cultural differences in cross-border of M&A. However, there is a shortage of literature on the impact of cultural differences on the integration in an international M&A. Therefore, the research will be conducted on this specific topic.

1.2 Objective of this research

This thesis focuses on the cultural aspects related to Mergers & Acquisitions. More specifically, the objective of this research is to identify which cultural differences influence cross-border M&A. The findings of this research are intended to help companies to be aware of the importance of these cultural differences and thereby to enhance integration success. In the last chapter of this thesis, several ways are suggested that can facilitate the cultural integration in order to help top managers deal with cultural differences in a more effective way.
1.3 Problem definition

Scholars argue that cultural differences are the primary cause of cross-border M&A failure (Yong & Tian, 2007), but the cultural difference is usually neglected by companies.

The integration process is critical in M&A. The integration process is more difficult between the companies from different countries (Shimizu et al 2004). Because transnational mergers and acquisitions of an enterprise are not only influenced by the bilateral enterprises own cultural differences, but also by both cultural differences, the so-called dual cultural conflicts. As quoted in Shimizu et al (2004), Nahavandi& Malekzadeh suggested, the greater the integration, the closer the coordination necessary to implement it successfully and therefore, the greater the important of cultural differences.

In theoretical research, as mentioned above, the focus is mainly on finance and strategic decisions addressing the M&A problem to a lesser extent from a cultural point of view. However, cultural differences often give rise to problems when it comes to integration of the merger. It has been estimated that one third of all mergers fail because of faulty integration. Most mergers suffer in the beginning from what is termed as the post-merger syndrome.

In order to guide this research, the following main research question is formulated:

“To what extent do cultural differences influence the integration process in cross-border M&A?”

As a further clarification of the main research question, the following sub-questions are formulated:

- What is the definition of culture?
- How do we define cross-border mergers and acquisitions?
- What aspects of integration are influenced by culture?

1.4 Research strategy

A deductive approach is selected as the main method in this study. A theoretical framework is developed based on existing literature and this will be tested by in-depth interviews with both experts from small and medium sized organizations and from large international companies.
Primary sources of information are interviews conducted with experts. Besides this, the Philips cultural integration & change management handout is used as secondary resource.

### 1.5 Structure

Chapter 1 is an introduction of this thesis which gives the background to this research, the research objectives, the research questions and the main strategy that is used to answer the questions.

Chapter 2 of this thesis gives an overview of these subjects based on a literature study. It starts with an introduction (2.1), then Culture is defined (2.2): culture in general (2.2.1) and and Hofstede 5 dimensions is explained in detail (2.2.2). This is followed by literature findings on mergers and acquisition (2.3). Subsequently, the impact of cultural differences in cross-border M&A is elucidated (2.4). Conclusion of this section is made in 2.5.

Chapter 3 describes the methodology of the research.

Chapter 4 contains the analysis of interviews. What happens during integration in terms of culture differences is described. More factors within culture differences which influence the M&A are found out.

Chapter 5 contains the conclusion and an answer to the research questions, followed by recommendations for companies on how to bridge cultural differences.
2 Literature review

2.1 Introduction

This chapter begins with a definition of culture in general, which is followed by a literature review of mergers and acquisitions. Next, these two concepts are linked together and the role that culture plays in M&A is described theoretically. This is based on a deductive method, performed by reviewing the relevant literature and subsequently interviews were conducted as an inductive approach. The interviews are therefore complementary to the literature review and the combination of the review and the interviews will make it possible to draw conclusions and to give an answer to the research question.

Before the analysis of the impact of culture on M&A, the theory of M&A will be introduced first.

2.2 Mergers & Acquisitions

First the definition of M&A should be introduced. Merger is defined as the consolidation of two organizations into a single organization. Acquisition is the purchase of one organization from another when the acquirer maintains control (Borys and Jemison, 1989 quoted in Schraeder & Sefl, 2003). For example, ExxonMobil is merged between Exxon and Mobil. Philips has performed many M&A throughout its history, such as in 2009 with the acquisition of the Italian coffee machine maker Saeco and in 2008 with Genlyte and Respironics (Philips Annual Report 2009).

There are domestic M&A and cross-border M&A. Domestic M&A are conducted within the same country. Cross-border M&A involve two companies from two different countries. Cross-border M&A is defined as an activity in which an enterprise from one country buys the whole asset or controlling percentage of an enterprise in another country (Zhu & Huang, 2007). After 2000, the fifth M&A wave came, that is cross-border M&A. This provides a challenge to the success of M&A. Many studies have been done to find out the success factors. My research also focuses on cross-border M&A.

In the domain of the M&A research, some scholars have classified M&A into five aspects: strategy management, economics, finance, organization theory and human resource management (Larsson and Finkelstein, 1999).
Birkinshaw, Bresman and Hakanson (2000) defined four “schools of M&A” that cover these five aspects, categorizing them into parts according to different theories and functions:

1. The Capital Market School examines the stock holder’s equity and tries to create the biggest profits for the stakeholders. They also investigate the stock price fluctuation before and after the M&A.

2. The Strategic Management School focuses on creating the industry’s value and understanding how strategy affects M&A. By expanding the economic scale, increasing market power, the industry will improve its efficiency and effectiveness.

3. The Organizational Behavior School studies the change of organizational behavior before and after M&A, such as integration of the organization and how employees behave during M&A.

4. The Process Perspective School focuses on avoiding mistakes during the acquisition and it believes that the industry can create value after M&A by good process management.

Post-acquisition integration is difficult, being it domestic or international. However, the integration between firms from different countries is more challenging. Since this focuses on the integration process, this leads to an approach of the organizational behavior school. The organizational behavior school focuses on the behavior implications of acquisitions, both at individual and organizational levels. This is part of the human side of M&A. Human side analysis examines with organization resistance how the people involved deal with uncertainty, stress, and anxiety. This leads to the focus of this research on integration process.

In terms of the culture perspective, scholars argue that culture differences are a major cause of problems in post-merger or post-acquisition integration process. There are studies about culture clash, impact of culture differences, the dynamics of the acculturation process and the construction of various culture conceptions. Culture is often neglected by managers (Baono & Bowditch, 1989, quoted in Birkinshaw, Bresman and Hakanson 2000).

As Carnina et al (2010) argued, the realization of the synergy through successful integration is essential to create value. The integration process plays a vital role in the success of an acquisition.
Within the domain of the study of the integration process, there are three major findings concerning integration process (Shimizu et al 2004).

1. The culture difference imposes a challenge to integration process.

2. The integration process and adopted control system decide the performance of the acquisition.

3. Acquirer nationality decides the preference of integration process and control system.

From the first point, we can see the importance of culture. It leads to my study to find out how cultural differences influence the integration process.

Concerning the integration process, Jons, Froese & Pak (2007) explained the acculturation process from some scholars. “Culture acculturation” means two different organizational cultures can influence each other and develop a “Culture Fit” to eliminate the stress of the staff and to reduce the conflict of integration (Nahavandi & Malekzadeh, 1998).

Berry (1980a, 1980b, 1984) illustrated cultural change in terms of an acculturation process. He suggested that the mutual flow of cultural influence is usually unbalanced and that acculturation is the process of one culture dominating another. Four types of acculturation are suggested by Nahavandi and Malekzadeh (1988) to indicate the main factors for the success of an acquisition.

1. Integration is the convergence of both cultures without a dominant culture by cultural and structural change.

2. Assimilation means where the acquirer fully absorbs the acquired firms’ culture.

3. Separation is the process where the acquired firm’s culture has not changed much due to little culture exchange.

4. Deculturation results in a totally new operation and a system that is different from the old ones.

Whatever kind of acculturation strategy the company uses, culture is the core. Jons, Froese & Pak (2007) investigate these approaches empirically. Their result concluded that not only national culture differences, but also cultural integration approached by the acquirer plays a crucial role in cultural change. Acculturation depends on a few factors, such as language, communication and culture fit. Again we can see that the
culture factor should not be neglected. All of this research provides a basis for my further research on the culture factor.

In the integration strategy, cultural integration is a critical part. The cultural integration in cross-border M&A is a process that recognizes and coordinates the cultural differences of states and enterprises (Zhu & Huang, 2007). Cultural integration eliminates conflicts arising from cultural differences by organizing and amalgamating the values, psychological states and behavior modes of different communities.

This process includes consideration of organizational structure, operating and decision-making apparatus, reward systems and people related issues (Miller, 2000). Within organization theory, the perspectives are discussed in the M&A definition part.

Cultural integration is not simply merging different cultures into one, but it is a process to establish a new company model by selecting, absorbing, and integrate cultures.

Cross-culture management after M&A can facilitate the cultural integration. Cross culture management is a system that a company selects a pattern of system, solves conflicts, converts negative factors into positive ones and obtains value from cultural synergy after the merger. The basic principle of cross culture management is respecting and understanding another culture, and acknowledging the importance of communication and adapting to changes. People are the core of the management. The company should synthesize strategic significance with its culture; communication being the most effective way.

Piero Morosini and Harbir Singh carried out a survey of 400 companies in cross border acquisitions in Italy and they found out that a ‘national culture-compatible’ post-acquisition strategy implemented by the acquiring company to interact and be coherent with the target company’s national culture can significantly improve cross-border post-acquisition performance. (Morosini 1994)

Zhu & Huang (2007) propose four models for cross-culture management to solve the culture differences.

The first is localization. It means the subsidiary of the parent company located in other nations is regarded an independent entity and it can make its own strategy and decisions according the local circumstance. The parent company respects the local culture and recruits local people to manage the subsidiary

The second model is transplanting the culture of the parent company. The acquirer appoints its own people as representative to control the target company. Through strongly supervising the target company, the buyer can transplant its culture.
The third model is cultural innovation by integration. In this situation, both the cultures of the acquirer and the target companies exist together, and the new culture is established by convergence of the two cultures. This culture innovation can maximize the cross culture value.

The fourth model uses evasion tactics. It happens when there is a huge cultural gap between the acquirer and the target. Then the acquirer will appoint a manager, but it is also possible that the third party will be involved in order to bridge the cultural gap and smooth out the management transition. This model is usually used in a transition period.

Through the introduction of the main concepts and a model both in culture and M&A as above, we already see the overlap of the two concepts. In the following section my research will link culture and M&A together and take a deeper look into the impact of cultural differences in the integration process.

2.3 Culture

For international business, culture is an important factor that companies need to take into consideration because it is rooted in both individuals and organizations. Therefore, before analyzing the details of how culture contributes to the success or failure of M&A, it is instructive to provide the theoretical foundation of culture, as to define the most important terminology used in this thesis.

2.3.1 Definition of Culture

Individual and group behavior can be totally different. It is shaped by belief, attitude, and norms; it is the power that binds us together. The importance of culture leads to this review, which is about finding out what culture is. Scholars explain culture from different perspectives, so next it is described how different scholars define culture in different ways.

The word culture originally comes from Latin cultura, which means the cultivation of soil. Hofstede indicates different levels of the culture: the individual level, the organizational level and the society level (Hofstede, 1980).

There are several ways to categorize culture. It can apply to a profession, a society or an organization. Professional culture refers to the extent of professionals identify themselves more with their profession than with the company they work for (Ulijn, 2000). National culture studies are among the most intensely and widely examined. It usually involves an investigation into or speculation about how a country’s national culture influences the communication behavior of domestic and/or foreign members of
multinational corporations. Schein argued that organizational culture represents members' more universal beliefs about "how things ought to be" (Schein, 1985). Similarly Miller explained that organization culture is the pattern of norms, values, beliefs and attributes that influence individual and group behavior within an organization (Miller, 2000). These indicate that organizational culture involves people in a certain organization of their way of doing things.

There are some other ways to describe organizational culture. It can be described in four dimensions: strategy (market orientation); structure (hierarchy levels, bureaucracy); leadership (interaction between leaders and subordinates) and cooperation (interaction between co-workers at same level) (Froese, Pak & Chong, 2008). Roger Harrison proposes that there are four main types of organizational culture: power, role, task/achievement and person/support (Cartwright & Cooper 1993).

Companies operate in different ways. This will influence how employees make decisions, their attitude, and their motivation. The corporate culture penetrates every aspect of an employees' work. Its differences are easier to solve than the national culture differences, because they might not become inherent characteristic of staff.

National culture reflects on different groups of people. There are many definition of national culture. The overview of culture definition can be found on table one. One of the definition is "the common frame of reference or logic by which members of a society view organizations, the environment, and their relations to one another. National culture is likely to yield important effects on the process by which the environment is known and responded to" (Geletkanycz, 1997, p. 617). (quoted in Delerue & Simon 2009).

Why is national culture important in international business? The importance of national culture stems from three points. First; nations are political units rooted in history. Second; nationality has a symbolic value to citizens, and third; human thinking is partly conditioned by national cultural factors (Hofstede, 1983; Trompenaars, 1985). Steensma, Marino, and Weaver (2000) have shown that different views and assumptions embedded in national culture are reflected in managerial attitudes and beliefs. (quoted in Delerue & Simon 2009). Those differences in managers will influence their management mode. According to Nonaka's (1994) model, the national culture will influence tremendously the value that managers perceive for the operation practice (Malekzadeh & Nahavandi, 1998, quoted in Forese, Pak, Chong 2008).

National culture differences between alliance partners can challenge the development of successful alliance relationships (Sirmon & Lane, 2004), specifically given the lack of shared norms or values (Park & Ungson, 1997) and differences in perceived risks (quoted in Delerue & Simon 2009). Within a company, national culture reflects half of the differences in manager’s attitudes, beliefs and values.
In the context of cross-border M&A, national culture and corporate culture are interdependent. A company located in a certain country inevitably is affected by their national culture and the national culture determines the premise of the enterprise culture (Zhu & Huang 2007). Corporate culture is heavily influenced by national culture (Schneider & Constance 1987, quoted in Chakrabati Jayaraman & Mukherjee 2004). In my thesis, I investigate in more detail the national cultural differences since the research target is cross-border merger and acquisition. Each international M&A will involve cultural differences between the buying country and the target country.

In order to know more about culture, an overview of definitions of culture are introduced in table 1.
<table>
<thead>
<tr>
<th>Researchers (sources)</th>
<th>Dependent variables</th>
<th>Independent variables</th>
<th>Method</th>
<th>Sample / context</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kluckhohn and Strodtbeck</td>
<td>Human problem solutions</td>
<td>Five dimensions: - human nature orientation - man-nature orientation - time orientation - Activity orientation - relational orientation</td>
<td>Quantitative questionnaire, qualitative report</td>
<td>106 persons; Navaho Indians, Pueblo Indians, Spanish American village, Texas and Oklahoman farming village, and a Mormon village</td>
</tr>
<tr>
<td>Hall and Hall</td>
<td>Communication at work</td>
<td>Four dimensions: - Fast and slow messages - High and low context - Space - Time</td>
<td>Qualitative open interviews</td>
<td>180 employees and managers in the field of economy</td>
</tr>
<tr>
<td>Hofstede</td>
<td>National cultural difference within one organization</td>
<td>Four dimensions: - Power distance - Individualism / collectivism - Masculinity / femininity - Uncertainty Avoidance</td>
<td>Quantitative questionnaire</td>
<td>Approximately 116,000 IBM employees</td>
</tr>
<tr>
<td>Trompenaars</td>
<td>Management-relevant problem solutions</td>
<td>Seven dimension; - Time status - Achievement / status ascription - Individualism / communautarism - Universalism / particularism - Emotional / neutral - Specific / diffuse - Man-nature relationship</td>
<td>Qualitative questionnaire with scales</td>
<td>15,000 employees in companies</td>
</tr>
<tr>
<td>Schwartz</td>
<td>Present and future in society</td>
<td>Eleven dimensions: - Self direction - Stimulation - Hedonism - Achievement - Power - Security - Conformity - Tradition - Spirituality - Benevolence - Universalism</td>
<td>Quantitative questionnaire with nine-point Likert scale</td>
<td>Approximately 200 teachers and 200 students per country, in 20 countries</td>
</tr>
<tr>
<td>House et al. - GLOBE</td>
<td>Business leadership present and future</td>
<td>Nine dimensions: - Performance orientation - Future orientation - Assertiveness - Human orientation - Gender egalitarianism - Power distance - Institutional collectivism - In-group collectivism - Uncertainty Avoidance</td>
<td>Quantitative questionnaire with seven-point scales and analysis of qualitative data with content analysis</td>
<td>17,000 middle managers in 61 countries</td>
</tr>
</tbody>
</table>
From table 1, we can see that scholars describe culture from different angles. Among these scholars, let us focus on some classic definitions.

Kluckhorn (1951) defines culture in this way: culture consists of patterned ways of thinking, feeling and reacting, acquired and transmitted mainly by symbols, constituting the distinctive achievements of human groups, including their embodiments in artifacts. The essential core of culture consists of traditional (i.e. historically derived and selected) ideas and especially their attached values.

The anthropologists Hall and Hall (1990) consider culture as a system for creating, sending, storing, and processing information.

Hofstede defines culture as: “the collective programming of the mind which distinguishes the members of one human group from another” (Hofstede, 1980).

There are criticisms about his theory on empirical (for example, one time and a single company) data. Its samples are only based on IBM and they do not cover all regions. From a theoretical base, it is criticized that the dimensions are derived from post-analysis factor structure: ecological fallacy. It is not clear whether the magnitude of the difference will have the same effect as the direction of each construct for a given pair of partners (Weber et. al 1996). Also

Nevertheless, Hofstede’s framework has been largely validated and provides a reasonable representation (Weber et. al 1996). It is proven to be valuable especially for national culture perspective.

Therefore I choose Hofstede theory as my basis for the further research.

There are three reasons for this choice. First, Hofstede’s definition covers the basic elements of culture. It comes from his three levels of mental programming. Every person’s mental program is partly shared and partly unique. The basis is a universal level, which is shared by all human beings. It includes expressive behaviors like laughing and weeping. The collective level is shared by a certain group. It includes language, physical distance, eating habits and so on. The individual level is the unique part, it is the level of individual personality and no two people are alike in this respect. We can see this more clearly in figure 1.
Second, Hofstede's dependent variable is national cultural difference within one organization, which is useful because in the context of cross-border M&A, two national cultures are involved.

Third, Hofstede's research is based on quantitative research. In this way it contributes to the validity and reliability, which will complement my qualitative research.

Previous research efforts show the importance of national culture in a company, especially between alliances. Therefore, it leads to my further research in a later section. My aim is to try to find out the role of cultural differences in cross-border M&A. In this context, the focus is specifically on national culture. Following this, I will use the theory of Hofstede in detail and afterwards it will be clear if his theory can be linked to the integration process in cross-border M&A.

2.3.2 Hofstede 5 dimensions

Hofstede's book “Culture’s consequences: International differences in Work-Related Values” is said to be one of the most cited publications (Gerhart & Fang2005). In research on cross-border M&A, national culture comes to an important role. Hofstede’s culture dimensions are the focus of national culture. Most of the literature concerning culture in cross border M&A uses Hofstede’s theory to explain culture. For national culture, Hofstede ‘s work has proven valuable.

One of the core concepts of Hofstede theory is culture dimensions. Culture dimensions measure values, that is, "a conception, distinctive of an individual...of the desirable which influences the selection from available modes, means and ends of action". Cultural dimensions are the most widely used variables in cross-cultural management literature.

Cultural dimensions are constructs and can be measured on quantitative scales (Fink, Neyer & Kolling 2006). Hofstede conducted quantitative research and tried to find similarities between behavior and attitude perception in a certain society. He analyzed a large database of employee value scores collected by IBM between 1967 and 1973, covering more than 70 countries. He intended to find out which views appear to be bonding for a nation in comparison to others.

His findings reach a conclusion that is regarded as a fundamental fact of international management: “organizations are culture-bound” (Hofstede 1980). Therefore we can see the importance of culture in international business.

In the first round, Hofstede collected more than 116,000 questionnaires from 40 subsidiaries of IBM and later in ten more countries. In the second round, Hofstede employed factor analysis, and the four dimensions were derived; Individualism / collectivism, masculinity / femininity and uncertainty avoidance (Fink, Neyer & Kolling 2006).

Another dimension; long term orientation has been added by some Chinese scholars in order to extend Hofstede’s analysis.

According to Hofstede, the four dimensions explain 49 percent of a variance across countries (Hofstede 2001, quoted in Fink, Neyer & Kolling 2006). Therefore, some scholars criticize the 51 percent of the cultural differences that cannot be explained by the four dimensions.

In my research, national culture is the focus to measure cultural differences in cross-border M&A. Therefore I use Hofstede 5 dimensions to analyze the national culture.

Below is an overview of the 5 dimensions.

1. Individualist-collectivist values

Individualism is characterized by personal goals that support competiveness and individual decision making. Collectivists are more motivated by group interests. As Weaver et al. (2002) argues that the members of individualistic society are likely to have a weak tie with their alliance partners and be less willing to give up control in their relationships (Delerue & Simon, 2009). Collectivism/individualism defines the degree of acting as members of cohesive groups (Hofstede & Bond, 1988).
In individualistic cultures for example, employees are expected to fight for their own interests and everybody should have the right to privacy and an own opinion. On the other hand, low scores imply that it is a more collectivistic culture where employees are extraordinary loyal in general and the company is expected to care for the well-being of its workers.

Most Western cultures, such as the U.S., many Western European countries and Australia, are more individualistic, whereas most East Asian, African and Latin American cultures are more collectivistic (cf. Hofstede, 2001, 2005 quoted in Power, Schoenherr & Samson 2010). The cultural value of collectivism compels Chinese to rely more on the collective power than on their own (Hofstede, 2005 quoted in Delerue & Simon 2009).

2. Power distance

This emphasizes the degree of equality or inequality between people in the society. A society with strict hierarchies has greater power distance.

When the score for power distance is rather high, it indicates that subordinates are more likely not to question decisions from higher corporate levels and just do what they are told to. In contrast, cultures which score low in power distance perceive themselves to be more equal in the workplace. Power distance represents the degree to which a person accepts inequality as normal and fair (Hofstede & Bond, 1988 quoted in Delerue & Simon 2009).

Michailova and Husted (2003) articulated that accepting and respecting a strong hierarchy would lead to the unawareness of the value of individual employees’ ideas and involvement.

3. Uncertainty avoidance

This aspect shows the society’s attitude towards uncertainty and ambiguity. It deals with a society's tolerance for uncertainty and ambiguity; it ultimately refers to a man's search for Truth (Hofstede).

The higher the UAI is, the more people tend to stick to rules and are less open to changes within a company, while on the contrary a low uncertainty index implies comfort and acceptance of unstructured new situations.
4. Masculinity-femininity value

This dimension shows two perspectives: (1) the gender roles; (2) the qualities often ascribed to them. It reflects a culture’s dominant values with respect to achievement, recognition, competiveness and interpersonal relationships (Hofstede 1980, quoted in Delerue & Simon 2009). In masculine societies, people are aggressive, task and performance oriented, likely to take risks. Formalized roles are critical for reducing the negative effects of group conflict and confusion (Song & Parry, 1993, quoted in Delerue & Simon 2009).

In feminine societies, emphasis is more on relationship rather than money (Hofstede 1983 quoted in Delerue & Simon 2009). Relationships are stressed, as well as a high living standard regarding the quality of life and social behavior towards others. Masculinity in contrast focuses on the inequality of the sexes, the aim of earning a lot of money and privileges, the interference of corporate life into privacy in order to achieve the company’s goals and a high amount of work stress with less importance laid on well-being.

5. Long-term orientation (LTO)

It is the most remarkable Chinese cultural characteristic, which grounds the morality and ethic standards in Chinese communities.

In the organization, long-term orientation focuses on thrift and perseverance as important and also focuses on relationships which are ordered by status and the acquisition of real estate for the future. Moreover leisure time is not that essential and money is to a greater extent saved before bigger spending takes place. Short-term oriented cultures score rather low on the LTO and give less respect to traditions and care for the protection of one’s face. Commonly, those cultures are interested in fast success and have a habit of spending rather than saving; also leisure time is of high importance and is to be enjoyed.

The cultural value of large-power distance dominates Chinese to have strong dependence needs and a blind faith in upper management’s abilities over their personal power (Tsui, 2001 quoted in Wei, Liu & Calabrese 2010).

2.4 The impact of cultural differences

Culture is a relatively new entrant within the ambit of financial literature. In Chakrabati research, they study the performance of 405 cross-border acquisitions between 1991 and 2000. They found that on average an acquirer enjoys a significant positive
“announcement effect”. The long term performance of the acquirer is positively and significantly related to the “cultural distance” between them. That means that acquisition involving countries with dissimilar cultures do better than those between companies with similar cultures (Chakrabati Jayaraman & Mukherjee, 2004).

The effectiveness of the integration is not only affected by the corporate culture, but also strongly influenced by the national culture. This double level problem is addressed as “double layered acculturation” (Shimizu, Hitt, Vaidyanath & Pisano, 2004). The larger the integration task, the larger the importance of cultural differences, because it will involve more communication to implement the integration. Chatterjee et al (1992) found out that the culture difference negatively affected the shareholder’s value.

While culture may seem a “small thing” when evaluating mergers, compared to product-market and resource synergies, Weber & Carerer think the opposite is true because culture is pervasive. It affects how the everyday business of the firm gets done - whether there is shared understanding during meetings and in promotion policy, how priorities are set and whether they are uniformly recognized, whether promises that are made will be carried out, whether the merger partners agree on how much time should be spent, and so forth (Weber & Carerer, 2003). Results of the study provide the insight that not only national cultural differences, but also cultural integration approaches by the acquirer, play a major role in cultural change after the acquisition (Jons, Froese & Pak, 2007).

The challenges with respect to integration are influenced by corporate cultural differences. Culture difference is regarded as the most prominent factor for the lack of predicted performance, loss of main staff and other problems (Mohibullah, 2009). Culture clash (Mohibullah, 2009) is a term to describe the conflict between merged companies. It contains differences in e.g. style norms, sanctions, philosophies and objectives. This may be the most dangerous factor for the merger (Mohibullah, 2009). It takes 5 to 7 years for employees to truly understand each other’s culture (Mohibullah, 2009).

Conventional opinion towards the impact of cultural difference shows that they have a negative influence on M&A. The main assumption behind this is that cultural differences are a source of acquiring cultural risk and interfere in the integration potentially. Hofstede’s culture distance hypothesis indicates that the difficulties, the costs, and risks relevant with cross culture contact will increase with growing culture difference between two individuals, groups and organizations (Stahl& Voigt, 2008).

On the impact of the cultural differences, Weber’s research has established the relationship between culture and M&A. In research of Weber et al. (1996), they use samples drawn from the Journal of Mergers and Acquisitions during the 1985 to 1987 period. Data were collected in early 1988.
A questionnaire was sent directly to each top manager (CEO through senior vice-president level, the average for the sample was seven top managers per firm) who was in the acquired company prior to, and at the time of, the acquisition. The unit of analysis was not the individual manager but the top management team. They focus on both domestic M&A and cross-border M&A.

They measured 11 factors:

1. Corporate cultural differences. This construct was measured using Chatterjee et al.’s (1992) instrument.
2. Power distance.
3. Uncertainty avoidance.
4. Individualism/Collectivism.
5. Masculinity.
6. Autonomy removal: it regards to the extent to which a variety of goals and strategic and operational decisions were determined by acquiring teams.
7. Stress: It is the assessment of the amount of tension among the members of two teams, taking into account overt behavior, such as open disputes, heated discussions and other incidents.
8. Attitudes towards Cooperating with Other Top Management Team: it involves an attitude towards an action.
9. Group attitude towards the new organization: it involves an attitude towards an object.
10. Commitment.
11. Cooperation: it refers to the cooperation between the acquired company and the acquiring company.

The items 2 to 5 are national cultural differences, which are not measured by questionnaires but calculated from Hofstede (1980).

They found out that for International M&A (IM&A), the relation between the corporate culture an autonomy removal and attitudinal and behavioral variables is inverse to the relationship in Domestic M&A (DM&A), with the sole exception of attitude toward the merger. In IM&As, corporate culture differences have a positive effect in the post-merger period.

Commitment and cooperation are positively and sometimes significantly correlated with negative attitudes towards the merger and the attitude towards the acquired company. This suggests that in international mergers, both national and corporate cultures play
an important role. In those operations, people expect differences and the changes related to those differences, and therefore are less likely to resist them.

They have found that in IM&As, national culture differentials better predict stress, negative attitudes towards the merger, and actual cooperation, than corporate culture differentials do.

Some of these factors are supported by my literature study. For example, Chatterjee et al (1992) found that the degree of cultural difference negatively affected the shareholder value when strong integration is required. The cooperation between two companies top managers is influenced by corporate the culture. The larger differences will cause negative attitudes to the merger among managers. When the institutional distances between two countries is high, conflict between managers and employee is likely to increase. Weber et al (1996) found that national cultural differences caused more stress, negative attitude, less cooperation (Shimizu & Hitt, 2004) than M&A between companies within the same country. This supports Weber’s research.

Besides these factors which were found out by Weber et al, some other factors are indentified during my literature study.

A lot of literature, for example, Vaara 2003, Jemison & Sitkin 1986 and Bijlsma-Frankema 2001, considered cultural differences between M&A companies as the main perpetrator of post-M&A conflicts. The differences can lead to misunderstanding and lower performance (Zueva & Ghauri, 2007).

In a recent review of the literature on cross border acquisitions, Schoenberg (2000) observed that research studies confirmed the theoretical reasoning that relative national cultures influence the eventual outcome of an international acquisition. Although the interaction of organizational cultures cannot be ignored (Larsson & Risberg, 1998), it has been argued that cross-border combinations between organizations with similar corporate cultures may not be sufficient if the national cultures conflict. Consequently, it has been proposed that managerial preferences in international mergers that the challenge for leadership in cross-border M&As is to successfully accommodate and integrate both national and organizational cultures – i.e. to address what has been termed the “double-layered acculturation process” (Nahavandi & Malekzadeh, 1998).

Different languages in cross-border mergers may cause communication problems that can eventually result in a cultural conflict and thereby creating a possible source of merger failure.

Weber and Camerer performed laboratory experimental research. They introduced a laboratory paradigm for exploring the influence of organization culture. In their experiments, they allow the subjects to simulate firms to develop their own culture and
after that, they merged the two laboratory firms. After the merger, the results indicated that culture difference leads to decreased performance of employees (Weber & Camerer, 2003).

As Schweiger & Goulet argued, cultural difference tends to increase ego defense which maintains the existing identities of the acquirer and target (Schweiger & Goulet, 2005). They also quoted other scholars’ statements and indicated that different organizational culture differences are related to polarization, negative evaluations of counterparts, anxiety and ethnocentrism between members of the acquirer and the target top management. In their article, they showed other research results, indicating that cultural differences negatively influence the stock market performance, information system integration and effectiveness. Schweiger and Goutlet (2005) believe that culture difference can lead to a “culture conflict”.

While culture differences cause many problems, it also brings opportunities. One study finds that cultural fit has a major impact on post-merger performance and that the firms accept multiculturalism and avoid excessive control to perform better than less permissive firms (Chatterjee et al., 1992 quoted in Hopkins, 1999). This finding is based on the research that the greater the cultural distance between merging firms, the greater the benefit due to national differences.

Marosini (1998) indicated, “When handled effectively, a company actually can turn national cultural distance or initial deep-rooted cultural resistances into lasting practical advantages (Hopkins, 1999)”.

With the data analysis from 89 acquisitions in China by foreign investors from 1995 to 2007, Li, Zeng & Zhang concluded that totally different national culture provides more opportunities for the targets to learn and absorb new organizational practices or management methods (Li, Zeng & Zhang 2008). In perspective of the resource-based view, companies need to have diverse organizational practices to succeed. By cross-border M&A, new valuable practices can be accessed, and this will positively influence the performance (Slange 2006, quoted in Li, Zeng & Zhang 2008).

A Harvard business school study shows companies that "actively managed" their culture realized a 682 percent increase in revenue compared to a 166 percent increase for companies that did not manage culture. Net income soared to 757 percent for firms attending to culture versus a 1 percent rise for those that did not. Stock prices increased 901 percent for companies that actively managed their culture versus 74 percent increase for those that did not. 85 percent of failed acquisitions are attributable to mismanagement of cultural issues. Culture due diligence is as important as financial analysis (Miller, 2000). 85 percent of failed acquisitions are attributable to mismanagement of cultural issues.
2.5 Conclusion

Culture can support the strategy and decision making of firms and show what needs to be done. Corporate culture binds employees together. On the one hand, it poses a thread in daily activities. On the other hand, it offers consistency in a turbulent environment. Without understanding the culture, there might be confusion, clash and conflicts.

Culture integration is closely related to personnel issues. Employee change is crucial in organizational culture. While personnel issues might produce uncertainty, stress, ambiguities or culture clashes, some studies show the opposite. Some scholars found out that greater cultural difference leads to a higher performance of cross-border M&A. Employee satisfaction within M&A depends on how companies are integrated and whether the integration approaches meets employees’ expectation. If foreign firms implement great cultural change, it may fulfill employee expectation, leading to higher satisfaction for culture change. If no change occurs, it may disappoint employees (Froese, Pak & Chong, 2008).

Cultural integration usually takes more time than operational integration because people need time to adjust.

Several problems need to be solved in cultural integration. First, one should coordinate culture differences of employees to achieve communication and understanding in order to eliminate the negative effect resulting from different values and behaviors. Second, one should coordinate culture differences of corporate culture in order to integrate the leadership style, personnel system, performance appraisals and so forth. Third, the new core value of the company should be formed (Zhu & Huang, 2007). As a result, the cultural integration can provide a solid foundation for the operation of new company and maximize the capital, technique, sales.

It is also found that besides causing problems, cultural differences also provide opportunities. For example, cultural differences can facilitate the knowledge transfer. Hebert, Very & Beamish (1996) investigate the experience-based knowledge transfer from parent companied to acquired firms in Japanese multinational companies. The perspective of view regards knowledge transfer is a key competitive advantage.
3 Methodology

This section will describe the research design, selection of participants, measurement, data collecting and data analysis.

In order to describe the impact of cultural differences in M&A, a few semi-structured interviews with experts and experienced business people were conducted. The interviewees are from international companies and small/medium companies. Interview questions are designed using Weber’s measurement as framework. It tries to find out the cultural difference which respondents encountered and how those cultural differences influence the integrations. Beside Weber’s 11 dimensions, those interview questions are also designed to find out the relations between culture difference and misunderstanding and lower performances, polarization, negative evaluations of counterparts, anxiety and ethnocentrism between members of acquirer and target top management.

Another aspect which was aimed to find out is whether the cultural differences have positive impact.

In addition, for cultural integration part, besides literature review, the handout from Philips provides practical and valuable input.

This section will describe the research design, selection of participants, measurement, data collection and data analysis.

3.1 Research design

Grix (2004) characterized research into three types: descriptive, exploratory and explanatory. Descriptive research pays attention to the mapping of concepts and its measurement, exploratory research develops new concepts, explanatory research focuses on the causes of a phenomenon.

This research can be grouped into explorative research, because basic concepts are defined and mapped. Different research methods have specific characteristics. Thus it will be more or less suitable to use a certain methodology for the research. According to Yin (2003), the type of research, control of the researcher on behavior and the focus on current or historical events determine which method to use.

Interviews are an appropriate method for this research. To obtain qualitative information about impact of the cultural differences, interview questions are designed.
Semi-structured interviews are conducted to gain in-depth information concerning the impact of culture during integration process in cross-border M&A. Interviews seem to cause the least bias which increase the validity (Baarda & De Goede, 2001) and result in a deeper understanding of underlying motivations and reasons (Malhotra, 2004). However interviews are subjective and difficult to generalize. The interview questions focus on cultural differences which the respondents encountered and their experience of the influence of these cultural differences in the integration process after M&A.

This research is based on Weber’s (1996) quantitative approach. Data has been obtained by Weber et al in this field. In Weber et al. 1996 research, they use samples drawn from the Journal of Mergers and Acquisitions during the 1985 to 1987 period. Data was collected in early 1988. His quantitative study provides strong data for the analysis.

His companies base on the US. The companies in my research mainly base on the Netherlands. When look at Hofstede dimensions, the US and the Netherlands score have similar score. So my samples are consistent with Weber’s data in some degree. Semi-constructed interview as a qualitative method completes the research of Weber. The results from interviews will be used to test if this is consistent with Weber’s research.

3.2 Selection of companies and data collection

Qualitative part: participants are employees from three international companies (Philips, Evonik-Wesslink, and EATON), a small/medium company (SPM group), and a Dutch organizations (Turkish institute). This was done by interviewing 4 Dutch from Philips, SPM, Tebodin, Turkish institutionand 1 Spanish working in EATON in the Netherlands, one Chinese and Taiwanese who work in Evonik-Wesslink in China. These people have experience in internationalization. The selection is based on difference countries and industries. Interviewees with mix of cultural background experiences, covers Chinese, Spanish, American, Dutch, German, Turkey, French culture provide the input.

Next to this, the two interviews of German-Chinese company were conducted last year, though it is based on open question, not according the question list, it still provided valuable additional information.

During visit to Philips, some materials about the cultural integration process in Philips were obtained.

In the qualitative part, a face to face approach were used when interviewing Philips, EATON, SPM group, and Evonik-Wesslink; online video call was used with Turkish
institute and e-mail data gathering was used with Philips too. The duration of the interviews was about 45 minutes to one and half hour and the answers are gathered through notes.

Table 2 lists the companies that are asked to cooperate in an interview. It can be seen, that the companies are selected in different sectors, from manufacturing to consulting to NGO. The interviewees are mainly from top management, but also from middle level management and the employee level.

<table>
<thead>
<tr>
<th>Company</th>
<th>Type of company</th>
<th>M&amp;A countries</th>
<th>Interviewee</th>
<th>Nationality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evonik-Wesslink</td>
<td>Chemical company</td>
<td>Between German and Chinese</td>
<td>CEO: Mr. Kao; Secretary: Ms. Dai</td>
<td>Taiwanese</td>
</tr>
<tr>
<td>Eaton</td>
<td>Electrical</td>
<td>American and Dutch</td>
<td>Project manager: Alfonso Prado Mahamud</td>
<td>Chinese</td>
</tr>
<tr>
<td>Tebodin</td>
<td>Consultants &amp;</td>
<td>HQ in NL, acquired other companies</td>
<td>Procurement manager: Jaco Baars</td>
<td>Dutch</td>
</tr>
<tr>
<td></td>
<td>Engineers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turkije Instituut</td>
<td>NGO, aims to increase knowledge of Turkey</td>
<td></td>
<td>Director: Lily Strangers</td>
<td>Dutch</td>
</tr>
<tr>
<td>Philips</td>
<td>Electronics</td>
<td>HQ in NL, acquired other companies</td>
<td>Head of NVI: Harrie Brunklaus Head of communication in NVI: Stephen Atkinson</td>
<td>Dutch</td>
</tr>
<tr>
<td></td>
<td>Consulting and</td>
<td></td>
<td>CEO and key shareholder: Jos H. Stijghuis</td>
<td>British</td>
</tr>
<tr>
<td>SPM Group</td>
<td>Interim Group</td>
<td></td>
<td></td>
<td>Dutch</td>
</tr>
</tbody>
</table>

### 3.3 Measurements

The structure of the interview questions is included two parts. The first part is description of the cultural differences the participants encountered. The second part is the impact of the cultural differences in the integration process. These aspects are based on the literature review of Weber et al 1996 and other factors I found in the literature study.

There is a list of questions for reference when conducting interviews. However the specific interviews varied from interview to interview. For the participants who are directly involved in M&A, the questions are more focused on the influence of cultural differences in the integration process, for those who are indirectly involved in M&A, interview questions are more focused on cultural differences. The general interview questions can be found in appendix 7.1. The results of these interviews are used for gathering in-depth information.

In order to measure the impact of the culture, the measurement is based on the framework of Weber et al 1996. Weber obtained large samples of acquired US firm and
identified samples of International M&A and Domestic M&A. The samples were drawn from the Journal of Merger and Acquisition during 1985 to 1987.
4 Results

The answers of the aspects: the cultural differences; culture conflict; cooperation between two company top managers; to misunderstanding and lower performances; polarization, negative evaluations of counterparts, anxiety and ethnocentrism between members of acquirer and target top management are critically selected. Recommendations were also asked of these participants. No statistical analysis is used for the interviews. The quotes of the participants are written.

4.1 Interview records

Interview notes are listed as below.

Company: Eaton
Respondent: Alfonso Prado Mahamud, project manager in Eaton.
Extra information: Effective from 3 February 2003, the activities of Holec Holland N.V. are transferred to Eaton Electric B.V. Holec is now called Eaton Holec and forms a part of the worldwide Eaton Corporation.

Interview:

1. What are the foremost cultural differences you encountered in communication within the company after M&A?
   • US companies look for results in a short time,
   • Eating culture in company is different between NL and Spain. In Spain, people eat more; in NL, eating simple during lunch and drink more coffee during day.
   • In Spain, also 40 hours per week, but spread in different way, every day work after 6 and Friday afternoon free. In NL, everyday people go back home after work on time.
   • HOLEC have more relaxed working culture compared American acquirer
   • Spain has more national official holidays, but NL has more work official holidays.
   • American culture, in meeting need to be online, in HOLEC the time concept is less strict.
   • Dutch manager wants to know why you do that and discuses with employee; in Spain, the mangers provide the best solution and employee will listen to them.
• Spanish people are open to friends, more hospital. Dutch are more individualism and reserved.
• In Spain, companies organize more activities within colleges outside work.
• Dutch tend to make appointment.

2. Does communication go smoothly? Can you give examples?
• At the beginning it was hard to ask people to do something for you, he needed managers’ help to use authority

3. How does the cultural difference influence the cooperation between two company top managers?
• Europe is also on the way to optimize time and what to do. (I think he is not on right position to answer this question)

4. Do cultural differences lead to misunderstanding and lower performances?
• Language is a problem for communication. Sometimes it depends on how you express opinions. Spanish has more temper, tend to argue things and Dutch people are quieter and try to avoid conflict.
• But he does not think the cultural differences cause lower performance. People need time to know all the things.

5. Are organizational cultural differences related to polarization, negative evaluations of counterparts, anxiety and ethnocentrism between members of acquirer and target top management?
• He cannot give good input for this question, because he is not involved in the beginning of the integration after M&A.

6. What other barriers have obstructed the integration process?
• Language is a big problem.

7. In your opinion, how important is the cultural difference in the integration process?
• Cultural differences are always there. There will be rules in the companies. I got the feeling he did not feel that much cultural difference negative.

8. Does cultural difference have positive influence?
• People from different branches share information and knowledge. People learn better way of doing things. He knows prefer to eat less during day and go back home on time after work. And he feels personally richer in professional knowledge. He also like the Dutch way of less hierarchy.

9. What recommendation will you give on how to bridge cultural differences in the integration process after M&A?
• Learn the language. Companies provide language course
• Do activities with colleagues after work.
• HR and possibly a mentor in company can help you.
Company: Tebodin
Respondent: Jaco Baars

Interview:
1. What are the foremost cultural differences you encountered in communication within the company after M&A?
   - In Tebodin Romania, clients do the most of the job, Employee doing less advisory work. This is due to the market difference.
   - Language issue
   - Germany order. German takes what boss said. Germany employee don't think that much themselves.
   - German has more respect to the boss.
   - French people invest a lot in relationship. One time he visited a vendor in France, French people organized nicely and tried to satisfy them, but at the meanwhile takes quite long to arrange the needed documents.
   - In Eastern Europe, more bribery
   - Indian people like to approach clients to sell.
   - English people are limited to their own role in the job.
   - Tebodin Polish branch only set up for 2 years. Poland was communism countries and they are not used to think by themselves. They are expected to think about by themselves in Tebodin.
Company: Turkije Instituut
Respondent: Lily Srangers

Interview:

1. Culture difference
   - Dutch is more informal country, and in Turkey it is more polite, and less direct. Hierarchy is important in Turkey. Turkey older people take all the position, people will not argue with them.
   - In NL, junior technical people can influence the decision making.
   - Difference in collectivism. In Turkey, people act as collectively. Dutch don not speak as a voice.
   - Dutch people should carefully express directive citizen to Turkish. For example, a young Dutch manager banker asked employee by mail to crizize their superiority. Turkish don not understand this. In NL, to crizize take not offense.
   - In Turkey, it takes longer to make decision, because they feel not higher in hierarchies to make decision.
   - Uncertainty. Turkish people only say what they are really sure. Dutch people quite often say, I think... But on the other hands, Turkish businessman used to higher risk in trading.
   - Personal trust is very important in M&A. They need to trust you as a person, your appearance, and your creditability takes into account.
   - Turkish used to lead by mangers to take decision. They feel left out all by themselves.
   - CEO remain as Turkish will have less change in the company, and easier to deal with
   - New way of doing business is introduced, for example, Dutch way of approaching the clients gives more pressure to the clients, the Turkish employee not comfortable
   - Dutch replace the Turkish by Dutch manager, it will cause insecure.
   - The cultural difference between German and Dutch VS, Dutch –Turkish, Differences between German and Dutch is higher. When doing business with German, Dutch tend to think they are similar.

2. Do cultural differences lead to misunderstanding and lower performances?
   In western part of Turkey, it will not cause lower performances, because it is more modern, but in traditional part of turkey, it could be the case. 80% M&A is in the west part.
   - More international company or domestic market oriented company will be different
3. In your opinion, how important is the cultural difference in the integration process?
   • Cultural differences need to be taken into account. If it is neglected in the start, it will run into difficulties.

4. Does cultural difference have positive influence?
   • We should make out of the cultural differences. Turkish managers will know everything, well-being the Turkish. Turkish is more loyal, less job hoppers. It will lead to work to the same goal, higher productivity. Turkish people learn more organized, planned from Dutch

5. What recommendation will you give on how to bridge cultural differences in the integration process after M&A?
   • As an individual, just keep an open eye, use your intuition, be aware that you cooperate in a different environment.
   • For company, it is good to find a partner from local to get some advice.
Company: SPM Group
Respondent: Jos H. Slijkhuis
Extra information: The SPM-Group offers premium quality support in transformation processes designed to reinforce the market development of national and international companies.

Interview:

- Show buyer what they bought
- Show buyer how it works
- Small pilot, what shall we do, why shall we change
- Through pilot, acquired company see the equal
- Change the target company’s management
- Inform the target company well, they way to communicate
- Know what you are doing and be prepared
- Always double the cost, inform your bank, shareholder
- Culture difference can lead to misunderstanding and low performance
- M&A project between German and Belgium companies: both think their own way of working is better than that of their counterparts
- After buying a Swiss company, the Swiss staff didn’t want to talk. This resulted in uncomfortable situations. Buyer did not change the operations, after a while, the situation improved.
- Culture difference can have a positive influence on the integration process.
- Religion can be an important factor for the management mode after M&A.
Company: Evonik-Wesslink
Respondent: Mr. Kao General manager (GM) of Evonik-Wesslink
Extra information: Evonik-Wesslink is a joint-venture between the German Evonik and the Chinese Wesslink. The Germans have 60% of the joint venture shares. They produce silica.

Interview:

- European culture is more conservative, stick to rules. German obeys laws. The system, regulation in China is different.
- The cost, suppliers and competitiveness in China are different, and product position in China should be at middle and high end.
- In China, the relationship with government is complicated. It will influence company’s decision making, investment and production.
- Quantity wins in China. Company aims to expand the scale larger and larger. German part of the company pay attention to profit, not scale.
- Evonik-Wesslink is localization management and high level managers are localized.
- Since Mr. Kao was on board, he strengthened the communication with director from Chinese side.
- Communication with subordinate by the means of meeting.
- Wellink used to be a private family enterprise. Chinese boss wanted to save money and do not invest much on equipment while European have strong sense of security. After M&A, the infrastructure of the factory improved a lot. If it was state-owned company, it is more difficult to change.
- It takes 3-5 years to integrate the system, regulation.
- There are different ways of integration. For instance, one Italian manufacture for tires acquired one Chinese company. Italian side sent many Italian staff to China to supervisor, while Evonik-Wellink, only a few staff was assigned by Germany party.
- The motivation for acquisition will influence the relations between acquirer and acquired company. Hence the motivation should be clear.
- Expansion in China depends on the localization management. Don not fully adopt the foreign culture.
- Foreigners don not understand there is lack of safe concept in China. It is due to the social development is not mature yet.
- Managers should spend much to communicate subordinate. During this process, mistakes may be made over again and again. Continues education to employees can help them change the habit.
• Because the Rizhao company (another joint venture from Evonik in China) is newly set up company, there is not burden from past, and it is easy to set up systems.
• Experience: General Manager should have enough resources. If any branches have well developed HR, financial, SO system can be introduced, it will save time and money.
• The maintenance regulation and order system were just set up last year. Other systems are on the process.
• Culture is not company's priority yet.
• If staff can adapt those systems, it will improve efficiency. After employees adapted the system and accept the company value gradually, new company culture will be created. Thus culture can be driven.
Company: Evonik-Wesslink  
Respondent: Ms. Dai

Interview:
- Germans obey the rule too much. Everything is in order and by process, though Chinese can skip the process. For instance, when discussing the progress, in China, the installation of factory and inspection can be done at the same time. And German think inspection can be only after the installation.
- German is not efficient. Everything should report to upper manager and result will come out after a few months. The director of Evonik-Wellink (Chinese) think the decisions are up to several people and this way is not efficient.
- German side has 60% of shares. General manager is assigned by them.
- New GM is Taiwanese and can speak Chinese. It smooth the communication.
- After M&A, everything is formally communicated by report.
- German should learn Chinese culture too.
- Financial system is internationalized and it is audited by PWC.
- The company now has staff insurance system now and obeys the tax rules. Before it is a private family-owned company, it did not obey the regulation of insurance sometimes.
- After M&A, company structure is clearer and job distribution between departments is better organized.
- Foreigner has the environmental protection concept and social responsibility, safety concept.
- After M&A in 2006, the profit is positive. But due to financial crisis last year, there is loss, but they did not fire people.
- After M&A, the salary for staff is raised.
- German side charges the technical support fee.
- When German fire people, they give money for compensation to staff.
- German has strong time concept.

In the following table the interview results are linked to Weber’s culture factors and important cultural factors affecting the integration as found in literature.
Table 3: Results from the interviews with the companies. The column with Weber’s factors (from literature) is added for easy comparison.

<table>
<thead>
<tr>
<th>Cultural aspect</th>
<th>Eaton</th>
<th>Tebodin</th>
<th>Turkije Instituut</th>
<th>SPM Group</th>
<th>Evonik-Wesslink</th>
<th>Weber</th>
</tr>
</thead>
<tbody>
<tr>
<td>Autonomy removal</td>
<td>Y</td>
<td>Y</td>
<td></td>
<td></td>
<td></td>
<td>Y</td>
</tr>
<tr>
<td>Stress</td>
<td>Y</td>
<td>Y</td>
<td></td>
<td></td>
<td></td>
<td>Y</td>
</tr>
<tr>
<td>Attitude Towards Cooperating with Other Top Management Team.</td>
<td>Y</td>
<td>Y</td>
<td></td>
<td></td>
<td></td>
<td>Y</td>
</tr>
<tr>
<td>Group attitude towards the new organization</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td></td>
<td></td>
<td>Y</td>
</tr>
<tr>
<td>Commitment</td>
<td>Y</td>
<td></td>
<td></td>
<td></td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Cooperation (Top managers)</td>
<td>Y</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Y</td>
</tr>
<tr>
<td>Language factor</td>
<td>Y</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Y</td>
</tr>
<tr>
<td>Do cultural differences influence the integration (for example in terms of style norms, sanctions, philosophies and objectives)</td>
<td>Y</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Y</td>
</tr>
<tr>
<td>Do cultural differences lead to misunderstanding and lower performances</td>
<td>N</td>
<td></td>
<td>Depends on region</td>
<td></td>
<td></td>
<td>Y</td>
</tr>
<tr>
<td>Are organizational cultural differences related to polarization, negative evaluations of counterparts, anxiety and ethnocentrism between members of acquirer and target top management</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Does cultural difference have positive influence</td>
<td>Y</td>
<td>Y</td>
<td></td>
<td></td>
<td></td>
<td>Y</td>
</tr>
</tbody>
</table>

In table 3, the interviews with the companies are summarized. It is indicated if the interviewee considers a certain factor that can possibly influence the integration success relevant or not. It seems that the interviewees that are involved in acquisition integration consider more factors relevant than the interviewees that are not directly involved with M&A activities. The interviewees cannot comment on certain factors and therefore these fields are left blank in the table.

The factor “commitment” is not mentioned by most of the interviewees while intuitively it is among the most important aspects. A possible explanation is that this factor is logical to such an extent, so the interviewees don’t mention it separately as a factor for integration success.

The interviewee of Eaton indicated that culture differences do not necessarily lead to lower performance, but the interviewee interprets this factor as performance on a personal level instead of a corporate level. This means that this answer cannot be taken into account for the analysis.
For the analysis it is important that the interview results can be compared. Therefore, the selected interview results are those from the interviewees that have experienced a cross-border M&A personally, since they are qualified to give a good opinion. This concerns the interviews with SPM Group and Evonik. The other three interviews revealed a lot of information about culture differences, which will be elaborated more on in chapter 4.2.

### 4.2 National cultural differences

The interviews concerning cultural differences involve the countries Spain, America, the Netherlands, Romania, Germany, France, English, Turkey, Belgium, and China.

Table 4: Cultural dimensions scores of the countries that were covered in the interviews.

<table>
<thead>
<tr>
<th>Country</th>
<th>PDI</th>
<th>IDV</th>
<th>MAS</th>
<th>UAI</th>
<th>LTO</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Netherlands</td>
<td>38</td>
<td>80</td>
<td>14</td>
<td>53</td>
<td>44</td>
</tr>
<tr>
<td>UK</td>
<td>35</td>
<td>89</td>
<td>14</td>
<td>35</td>
<td>25</td>
</tr>
<tr>
<td>Turkey</td>
<td>66</td>
<td>37</td>
<td>45</td>
<td>85</td>
<td></td>
</tr>
<tr>
<td>US</td>
<td>40</td>
<td>91</td>
<td>62</td>
<td>46</td>
<td>29</td>
</tr>
<tr>
<td>Germany</td>
<td>35</td>
<td>67</td>
<td>65</td>
<td></td>
<td>31</td>
</tr>
<tr>
<td>France</td>
<td>68</td>
<td>71</td>
<td>86</td>
<td></td>
<td>54</td>
</tr>
<tr>
<td>Spain</td>
<td>57</td>
<td>51</td>
<td>42</td>
<td>86</td>
<td>55</td>
</tr>
<tr>
<td>Romania</td>
<td>90</td>
<td>30</td>
<td>42</td>
<td></td>
<td>90</td>
</tr>
<tr>
<td>Belgium</td>
<td>65</td>
<td>75</td>
<td>54</td>
<td>94</td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>80</td>
<td>20</td>
<td>66</td>
<td>30</td>
<td>118</td>
</tr>
</tbody>
</table>

Note: PDI is the power distance index, IDV the individualism, MAS the Masculinity, UAI the uncertainty avoidance index and LTO the long term orientation. Data of these five cultural dimensions are obtained from Hofstede (1980).

From this index, we can distinguish the differences in scores. In General, The Netherlands culture index compared to other countries is described as below.

**Low power distance (38):**

Decentralization and Democratic culture in the organization. Status is not important. There is little hierarchical separation in organizations. As my interviewee Alfonso mentioned, (he is Spanish and working in Eaton, a company formed after American acquired Dutch company), he was confused who was the boss during the first week in the company because the Dutch bosses discuss problems with subordinates openly. The Netherlands achieves 38 points. As a consequence it appears that in the Netherlands managers are not seen as superior just because of their position, but also their knowledge and performance has to be adequate to be respected among the workforce. A Dutch manager wants to know why to do that and discusses this with employees. However in Spain PDI (57) is higher, the managers provide the best solution and employee will listen to them. This is confirmed by the Spanish interviewee.
Turkey PDI is 66, higher than the Netherlands. Hierarchy is important in Turkey. In Turkey seniors hold great influence. People will not argue with them. Turkish employees are used to being lead by managers. In Turkey, it takes longer to make decisions, because queries must rise higher in the Hierarchy to make a decision. This is confirmed to be valid from interviewee of the Turkish institute.

*High individualism (80):*

Management is task oriented. Employer and employee relationship is contract based. The Netherlands score really high on this characteristic (80). This shows Dutch society a very individualistic one. While Spain’s IDV is 51. As Alfonso said, in Spain companies organize more group activities than the Netherlands. Turkish IDV is 37, lower. In Turkey, people act as collectively, however Dutch don not speak as one voice.

*Masculinity or feminine (14)*

the rewards are based on equality. Extra leisure time is more appreciated than more money. Conflicts are resolved by compromise.

With a score of 14 the Netherlands are a very “feminine” country in which quality of life has very high importance. Dutch people work to live and not the other way around. From the experience of the Spanish interviewee, Dutch people go back home after work on time. Overwork is not that common.

*Uncertainty avoidance:*

Lesser rules are appreciated, motivated by achievement. Top managers are more concerned with strategy than daily operations. Employees change their jobs more quickly. Netherlands score 53, relatively low. Turkish UAI is 85, very high. Turkish employees only say what they are really sure about.

*Long term orientation:*

The Netherlands score 44. In the Netherlands leisure time is essential and work should only help to achieve a good life. Aside from that, status in relationship plays a less important role.

**4.3 Influence of cultural differences in M&A**

From interviews, we can see that cultural differences do lead to misunderstanding and can cause a lower performance. Language can cause problems for communication, but it does not always cause lower performance. People need time to know all the things. In Turkey it also depends on the region. According to our interviewee, in the western
part of Turkey it will not cause lower performances, because it is more modern. In traditional part of Turkey, it could be the case.

Concerning the importance of the cultural differences, it is agreed that it should be taken into account at the start of the M&A.

60% of the interviewees think that cultural differences have positive impact. It can facilitate the knowledge transfer, which is consistent with the literature findings.

From the two interviews that are taken into consideration regarding the importance of culture in M&A (SPM Group and Evonik), it can be seen that all the selected factors are relevant. In one of these two interviews a factor is not mentioned. The possible positive influence of culture was no topic of discussion in the last year’s interview with Evonik.

From the interview with Turkije Instituut, we also found that personal trust is important in M&A. Appearance and personal creditability are taken into account.

There are also some recommendations for the individuals and companies to deal with cultural differences. From interviews, as an individual, try to learn local language, join the activities with college after work could help to go through the process, and keep an open eye and be aware of a different environment for cooperation. For the company, it will be good to have HR mentor to facilitate the process. Companies can also find a local partner to get advice on how to manage the cross cultural differences.
5 Conclusions and Recommendations

In this section, the main contributions and the limitations of this research will be indicated. Furthermore, some recommendations for future research will be suggested.

5.1 Conclusions

First of all, this study questioned the negative effects of different cultures on M&A, which were addressed by previous research. Most previous studies claim that different cultures lead to the conflict of top managers and managerial cooperation problems. This simply negative view of different cultures cannot explain the successful culture integration of some cross-border companies. This research goes beyond the limitations of previous researches, and tries to advise the companies how to deal with different cultures.

Especially, this research examines the impact of cultural differences from a national culture perspective with the use of Hofstede’s dimensions. It appears that the national culture varies from country to country, which can affect the way of thinking and doing things within the organizations. Furthermore, the results show that the impact is not only negative, but also tells of the positive influence of culture during integration culture in cross-border M&A.

For the convenience of presentation, the research question is repeated below:

‘To what extent do cultural differences influence the integration process in cross-border M&A?’

From this research it became clear that cultural differences influence cross-border M&A integration in a lot of different ways. The relevant literature indicates that cultural differences (both national and corporate culture differences) have an impact on the following aspects of the integration process in a cross-border M&A: autonomy removal, stress, attitude towards cooperating with other top management team, group attitude towards the new organization, commitment, cooperation (top managers), polarization, negative evaluations of counterparts, anxiety and ethnocentrism between members of acquirer and target top management.

There can be other relevant factors in the integration process that are affected by culture differences, but from the literature research it is concluded that these are the most important ones.
When conducting the interviews, people at different positions within the company were asked for their experience. In the analysis, only the answers from interviewees who were involved in a cross-border M&A were taken into account. From these answers, it became clear that every relevant aspect of the integration process as found in literature is subjected to the influence of cultural differences.

The literature addresses the influence of cultural differences mainly in a negative way. This can be due to the fact that failing M&A attract attention and demand explanation. Since 70% of M&A fail, the reasons for the failure are investigated, leading to literature on negative influences. However, cultural differences can also have positive influences. An example from literature is that it can facilitate the knowledge transfer. This is confirmed by the interviewee from Eaton. In general, the interviewees showed a positive attitude when answering the questions.

Cultural differences can have negative and positive impact on M&A. It is like a double-edged sword. On the one side, it can cause integration problems, on the other side it can become a company’s asset. Therefore, the cultural differences influence the integration process of cross-border M&A to a large extent.

5.2 Recommendations

It is difficult to avoid the impact of culture differences when dealing with different cultures during the integration of an M&A. However, difficulties that come with these differences can be reduced when they are handled properly. How to exploit the positive consequences while reducing the negative ones very much depends on how the cultural integration process is executed.

Literature findings (see appendix 7.3) suggest that the organizations might utilize the crisis which is caused by the events and processes as a trigger for change in order to forge a new, more vibrant, compatible organizational culture. Best practice from GE capital is described. The cultural integration and change management practice in Philips is elaborated. These findings prove standard cultural integration process can be followed. Tools can be adopted to realize the process. Achieving such change will also involve embracing the concept of leadership; adopt enterprise Communication and Training Mechanism, information system.

Standardized tools are used by companies for cultural integration and change management. Phillips uses a Cultural Quick Scan, followed by a “Cultural awareness and sensitivity” workshop, Cultural Deep Dives and Employee sessions. If these protocols are used frequently, they will be refined based on best practices and therefore they are valuable for future integration activities at every level of employees.
A detailed overview of the cultural integration & change management approach of Philips and the tools they use can be found in appendix 7.4.

Recommendations that follow from the interviews are the following:

- The company can provide courses on the local language.
- Do activities with colleagues after work to promote the integration.
- HR or a mentor in the new company can help the orientation in the new environment.
- Find a local partner to get advice on practical matters
- Managers should communicate properly in order to correct and avoid mistakes from employees. Furthermore, ensure continuous education for employees to change their habits in order to comply with the new situation.
- In the case of multiple acquisitions subsequently in the same country, use resources from previous acquisitions (for example the HR or financial system), to enhance the integration of the new acquisition. General Managers should have these resources.
- Culture learning is a two-way process. It is only the target company that has to learn the buyer’s company culture, but it works the other way around as well.

5.3 Limitations

The main limitation of this study is that only small number of interviewees participated, due to time limitation and the difficulty to reach the right target interviewees. Perfect interviewees will be those who are involved in the whole integration process from the beginning and have contacts with the top management. Most of the companies which I could contact kindly refused to do an interview due to the fact that they are busy. Many respondents which I interviewed are not directly involved M&A integration or from top management level. The small sample of interviewees may have affected the research outcome.

GE and Philips integration process is more concerning acquisitions instead of mergers, which limit the scope the research.

5.4 Theoretical implications and suggestions for future research

There is a long-lasting debate in theory and practice about the influence of culture differences. However, there is not sufficient study about the cultural differences in M&A. So, this research systematically summarizes the impact of the culture differences on cross-border M&A. Through this research, not only negative impact is found, but also the positive impact of cultural differences is addressed.
Several ways to turn negative impact to positive are new to existing literature. There was a gap concerning the tools to support the integration process. This research has limited finding concerning this part. Therefore it asks for a follow-up research.

For the future research, the effect of culture integration on firm performance can be further studied. The data collecting, bigger sample also could be obtained.

How can a company improve their cultural integration process is interesting. For example, Philips is keen on to find out how to improve their cultural integration process and what kind of tools should be used to support the process. This research direction can provide practical input for M&A companies.

5.5 Practical implications

This research proves how important the cultural differences are for company M&A to practice. Also, this research classifies the different cultures, which exist in different companies by using Hofstede (1980) four measurements. Hence managers can foresee the problems which might happen during culture integration, and better prepare the strategies and adopt the suitable management system to integrate different cultures.

Findings from GE and Philips concerning their cultural integration process and tools to support the process can give valuable reference to M&A companies.

Several points of the Chinese culture can be found in appendix 7.2. It can give some guideline for the M&A with China. Implications for company how to do can be also found in chapter 5. For example, leadership issue is one of the core tasks to execute during integration. This can help the company to bridge the cultural differences.

The resulting managerial implications include how to proactively manage cultural differences within the organization. M&A can present an opportunity for organizations to deconstruct the old culture and create a new orientation which will result in the success of M&A.
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7 Appendix

7.1 Interview question list

1. What are the foremost cultural differences you encountered in communication within the company after cross-border Merger and Acquisition (M&A)?
2. How do cultural differences, for example in terms of style norms, sanctions, philosophies and objectives influence the integration? Can you give some examples?
3. Do cultural differences lead to misunderstanding and lower performances?
4. Are organizational cultural differences related to polarization, negative evaluations of counterparts, anxiety and ethnocentrism between members of acquirer and target top management?
5. What other barriers have obstructed the integration process?
6. In your opinion, how important is the cultural difference in the integration process?
7. Does cultural difference have positive influence?
8. What recommendation will you give on how to bridge cultural differences in the integration process after M&A?
9. How long does it normally take for the cultural integration process? What about in your company?
7.2 Chinese culture

Base on the score, we can generate the differences described between the Chinese and the Western culture. These are listed in table 5.

Table 5: Differences between the Chinese and the Western culture. Source: Chen, Partington & Qiang, 2009.

<table>
<thead>
<tr>
<th>Chinese culture</th>
<th>Western culture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collectivism</td>
<td>Individualism</td>
</tr>
<tr>
<td>Large power distance</td>
<td>Small power distance</td>
</tr>
<tr>
<td>Strong uncertainty avoidance</td>
<td>Weak uncertainty avoidance</td>
</tr>
<tr>
<td>Long-term orientation</td>
<td>Short-term orientation</td>
</tr>
<tr>
<td>Outerdirected</td>
<td>Innderdirected</td>
</tr>
<tr>
<td>Relationship</td>
<td>Contractual</td>
</tr>
<tr>
<td>Conservatism, tension between hierarchy and harmony</td>
<td>Autonomy, tension between mastery and egalitarian commitment/harmony</td>
</tr>
</tbody>
</table>

Note: Based on Hofstede (1980), Trompenaars (1993), and Schwartz (1994).

Chinese culture is a family culture, person oriented culture. The ethnics of the person are more important than the task he or she takes. The leader makes decision and dominates. European culture is more based on laws and regulations.

Confucian dynamism – Foundation of traditional Chinese ethics

The Chinese values survey is developed by Hofstede and Bond (1980) to explore cultural values in 22 Asian and Western countries from the angel of Chinese social values. In this survey, Confucian dynamism, which refer to “the acceptance of legitimacy of hierarchy and valuing of perseverance and thrift, all without undue emphasis on tradition and social obligations which could impede business initiative” (Franke, Hofstede and Bond 1991, p. 167 quoted in Lin&Ho 2009). It is found out to boost the performance of national economics. Confucian is the foundation of Chinese culture, which shape the way of competing and managing human resource (Lin &Ho 2009).

Traditional Western theories are based on knowledge and science, while Confucian philosophy is a form of intentional truth. The essence of Confucian is based on ethics. This ethics is human oriented, can be applied to the management of business organizations and human resource management. As Romar (2002) suggested, ‘Confucianism can shape the organizational behavior approach by transforming it from
one that seeks to make the individual effective from an organization's viewpoint to one where the organization is more humane from the individual's perspective' (Romar 2002, p. 120). Confucian philosophy has big influence on corporate management in terms of organizational culture and business ethics (Lin & Ho, 2009).

The highest standards of traditional Chinese moralities are the Way (tao) and virtue (te). These two terms are used together as tao te, which means ethics. The Way refers to truths about the universe and human nature. The Way is very close to the term ‘Truth’ in Western thought (Lau 1992, p. xi). The ideal character of Confucian ethics is the sage, the good man, or the gentleman (chun tzu) (Lin & Ho, 2009).

Bond et al. (1987) applied this concept in a subsequent analysis of 22 countries to clarify a fifth dimension of national culture. This dimension, which represents a form of Confucian philosophy, measures the difference between a dynamic, future-oriented culture (positive pole/long-term perspective) and a static, tradition oriented culture (negative pole/short-term perspective) (Lin & Ho, 2009).

The study from Lin & Ho (2009) also finds that Confucian ethics have a lot in common with Western thoughts. Elements like loyalty, trust, and justice are honored by both Confucius and Western thinkers. These characters are important for a healthy business environment although they may take on a different form. For example, Confucian ethics of benevolence (jen) resembles the caring type of ethics of Schneider (1975) and Victor and Cullen (1988). Decorum (li) resembles the law and code type of ethics; loyalty (chung) resembles the rules type of ethics; profit (li) resembles the instrumental type of ethics; and virtue (te) resembles the independence type of ethics (Lin & Ho, 2009).

Due to the effect of China’s long-term planned economy and traditional culture, managers advocate Moralize, emphasize the process from cultivation oneself to pacify others, pursue stability and fear change, not to take risk, thus it is hard for them to catch unanticipated opportunities; while managers in western countries strive for excellence and have a strong risk perceptions.

**Relationship - Guanxi**

An important feature of Chinese business practice is the presence of business networks based on personal relationships or guanxi. Following Kipnis (1997) and Yang (2002), guanxi is seen as arising from the production and reproduction of human relations; as Yang (2002, p.459) puts it, guanxi is ‘a repertoire of cultural patterns and resources which are continuously transformed in their adaptation, to, as well as shaping of, new social institutions and structures and by the particular Chinese experience of globalisation’ (emphasis added). Guanxi is to be found both in mainland China and more widely in countries in East Asia but is not restricted to the Chinese (Yeung, 2000). Put more generally, Yeung argues that cooperative relationships in
Chinese business systems are largely embedded in personal business relationships. In contrast, cooperative relationships in the West are based on firm specific business strategies (ibid, p. 193). For example, Fukuyama (1995) identifies a difference between Western societies, which tend to have extensive sociability outside of the family, such as within institutions and a trust in what Giddens calls ‘expert systems’, and Chinese society, in which trust is limited to networks based on familial relationships.

As Gill & Bulter stated in their article, the literature about Chinese culture focus on the particular nature of international relationships. Rights and regulations within a family and with non-kin members are clearly defined and involve both functional and emotional elements. Business relationships with unrelated people have to be formed with Kan-Ch’ing (i.e. emotional basis). Multiple interactions and repeated mutual exchange of small favors are needed to build up an emotional foundation. Under the relationships with Kan-Ch’ing, people support and help each other, show concern for each other. The relationship with reciprocity leads to Guanxi. Continuous social interaction is needed to keep close Guanxi. Chinese culture has great reliance on personal trust and relationship rather than formal contracts.

Trust is an important factor in business relation across the national cultures. The breakdown of trust is likely to lead to tensions and instability in an alliance. But the action to destroy the trust will be different. For British managers, trust is likely to be broken down by failure of the other party to meet its contractual obligations. For Chinese managers, a lack of goodwill, poor personal relationship and failure to provide practical help and support will be concerned (Gill&Bulter, 2003).

The existence of cooperative networks within companies has been recognized and exploited by Western companies seeking to develop business cultures (Deal & Kennedy, 1982), as has the importance of relationships with others outside the company – for example, customers (see Treacy & Wiersema, 1995). The use of workarounds and other unexpected practices to enable formal information systems to work shows that cooperative relationships are necessary within Western companies (Knox et al., 2007). In China, guanxi is necessary in the absence of institutions that sanction or provide incentives for cooperative behavior (see Kipnis, 1997).

Therefore, for Western companies with JVs in China, key questions are how they can create systems that encourage cooperative behavior, which enable measurement and control to be exercised, and how far are they prepared to recognize and seek to interact within personalized cooperative relationships characterized by guanxi (Westrup & Liu).
Different work value

The work value is different. In China, due to the lack of the flexible incentive mechanism, the employees do not have initiative. In Europe, employees obtain more material satisfaction and fun through their efforts. Employees work hard during work and relax after work.

The value of talent evaluation is different too. In China, the moral quality outstanding, political quality, personal history and interpersonal relationships are selection criteria for leaders. Professional competence and management capability are neglected. In the west, the selection of manager is more focused on capability instead of virtue (Yong & Tian, 2007).

In terms of human resources, the moral indoctrination of ideological and political education is stressed, while in the west, the skill training is of vital importance.

Different management model

The management style is different. In China, management pay attention to interpersonal relations, such as the terms Guanxi is important in the office. Western companies tend to achieve efficiency through high utilization rate, standard regulation system. The cultural difference embodying in the management of Chinese companies shows power differential, risk avoidance, while individualism and small power differential is highlighted in western management culture (Yong & Tian, 2007).

Chinese tends to stress more of social status, "person" is more important than "thing". While in the west, it is opposite (Zhu & Huang.2007). In Chinese society, deep-rooted human relationship is mainstay of business management and is derived from Confucianism (Chakrabati Jayaraman & Mukherjee, 2004).

Attitude to performance

Different national culture tends to access performance in different ways. Chinese business tends to be more opportunistic, flexible and risk averse, short term profitability and the avoidance of long-term commitments to people outside the family. Joint Venture partners may disagree on goals, time frames and so on. British firms have a short-term financial focus with a principal concern on profitability and rate of return for their shareholders (Gill & Bulter, 2003).


**Face issue**

The significance of “saving face” and harmony is one of the Chinese cultural characteristics (Hartmann, Feisel & Schober, 2010). Face can be defined as the “respect, pride, and dignity of an individual as a consequence of his/her social achievement” (Leung & Chan, 2003, p. 1575).

One Chinese expert who has done extensive research about Chinese-Western negotiations has even stated, “Face and other frequently mentioned Chinese cultural traits can be a myth. Foreign business people should learn both to practice them and to distance themselves from them” (Fang, 1999, pp. 251–252).

First, face involves an evaluation that others have of a person. Second, this evaluation can be gained in several ways, including through achieving socially sanctioned accomplishments and by adhering to cultural and group norms. Third, this evaluation represents a social ranking within a group. Fourth, face is constantly reevaluated and negotiated. Fifth, face functions to maintain order in groups (e.g., Cardon, 2005a; Jia, 2001; Ting-Toomey, 1988; Zhai, 1995; Zuo, 1997).

In Chinese collectivist society, one’s life opportunities are greatly dependent on one’s social network. Face is essentially a measure of one’s position in social networks and is built up by a history of socially sanctioned behaviors. Without face, one’s opportunities in the Chinese collectivist society are greatly diminished (Hwang, 1987; Jia, 2001; Zhai, 1995; Zuo, 1997).

The Chinese and other East Asians are assumed to be less direct than Westerners and employ strategies such as avoiding direct refusal, using implicit communication strategies such as hints, employing intermediaries to avoid direct conflict, and avoiding direct criticism at all costs (e.g., Brown & Levinson, 1987; Ting-Toomey, 1988, 2004). It contains several distinct dimensions of face practices: (a) giving face; (b) protecting face; (c) vying for face; and (d) not considering face.

In mixed-tie relationships, human emotion and face become important means of influence. For petitioners who seek the help of resource allocators within mixed-tie relationships, face is critically important. It represents a person’s “social position and prestige within . . . [a] social network” (p. 961). Thus, in the Chinese relation-oriented society, it forms a basis for evaluating a person’s social power. Furthermore, the act of one individual petitioning another in Chinese society creates a face dilemma. If the resource allocator does not fulfill the request, this amounts to not giving face. The petitioner will feel loss of face, and the relationship may be severed. If the resource allocator fulfills the request, the petitioner gains face and becomes obligated to return face at a later time (Cardon 2009).
Group oriented--Collectivism

As emphasized by Alas and Sun (2007), Chinese management cultures starts with the family as the basic block of society, whereas the western management culture starts with the individual (Hartmann, Feisel & Schober 2010).

Group orientation is a major cultural value specific to the Chinese culture (Björkman & Lu, 1999 quoted in Hartmann, Feisel & Schober, 2010).

The case study from Hartmann, Feisel & Schober, 2010 found out that Confucian collectivism shapes certain mechanisms, e.g. the creature of an organizational culture, which builds up a group spirit among employees.

Chinese employees perceive a stronger feeling on identification than American employees. Chinese people more likely affiliate themselves to be adjuncts to the groups and the upper management and obey the given rank and orders (Weir & Hutchings, 2005). Further, Chinese believe that the opinions of groups are more likely better than individuals’ (Chow et al., 2000; Huang et al., 2008; Tsui, 2001), so they are disposed to defer to the decisions and the opinions of superiors and groups at discretion (Huang et al., 2008 quoted in Wei, Liu & Calabrese, 2010).

The collectivist dimension stresses the importance of social ties and interdependency.

Open conflict is seen in Chinese ethics as deeply improper. The social norm is to maintain harmonious relationship. The notion of harmony is highly valued in Chinese business culture (Ramaseshan, Yip, Pae, 2006)

In collectivist China, group solidarity, sharing, duties, and obligations are encouraged, and individuals within a collective are bound by affection and loyalty to one another (Hui and Triandis1985 quoted in Chen, Partington & Qiang, 2009).

Work goals - Motivation

Gibson and Wu (1991) and Kao and Ng (1997) argue that in eastern Asians, influenced by the Confucian philosophy, people are motivated not only by the goal of satisfying self-interests, which is well articulated by Maslow and other Western scholars, but also by moral duties and altruistic sentiments. In China, for example, work units had for decades used ideological indoctrination as a partial substitute for materialistic incentives in the belief that patriotic passion and communist conviction were powerful motivational tools (Nyaw, 1995 quoted in Bu& McKeen, 2001).

Putti et al.(1989) conclude two dimension of work goals of Chinese :The extrinsic dimension and intrinsic dimension. The extrinsic dimension contains earnings and
social status of the job, corresponded largely with Maslow’s physiological, safety, and social needs. The intrinsic dimension, including pride in work, job involvement, upward striving and preference for being busy on the job, corresponded largely with Maslow’s esteem and self-actualization needs. Manhardt (1972) categorized three dimensions of work goals among American business-school graduates: career success, working environment and intrinsic rewards (Bu & Mckeen, 2001).

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Chinese are much less concerned about the goal of having sufficient time left for non-work activities compared with their Western counterparts (Dawson et al., 1977; Eberhard, 1971; Morris, 1956; Shenkar and Ronen, 1987 quoted in Bu & Mckeen 2001). These authors attribute this to the Confucian tradition of putting duty above enjoyment and of viewing working as a means towards family well-being.

Chinese also exhibited an equal attention to their career success in terms of both extrinsic rewards and organizational influence, and a stronger interest in the intrinsic dimension of their work. In addition to the influence of Confucian work ethics, this may also result from the fact that the Chinese, having been deprived for so many years of the opportunity to excel, are determined to fulfill their quest for material wealth, career success and professional interest even at the expense of their family lives.

Bu & Mckeen (2001) found out the Chinese students were also found to be more focused on the moral aspects of their work than their Canadian counterparts. It appears that, despite their strong endorsement of some of the materialistic and individualistic goals, the Chinese students have not abandoned their country’s collectivistic tradition which emphasizes morality and virtue. (Bu & Mckeen, 2001).

In the research from Wei, Liu & Calabrese, through a survey conducted in China and the US, the aforementioned theoretical analysis is confirmed. The results indicate that intrinsic motivation operates through affective commitment: internalization, identification and conformity; rewards have little direct effects on final intentions but they will influence attitude indirectly via identification; punishment for not sharing splits on cultural lines: Chinese tend to comply to avoid opposing their group and Americans tend to follow a more individualistic path; Chinese have more tendencies to conform to teams’ opinions and tend to favor KS as a means of achieving harmonious
relationships, while Americans engage in KS because self-worth is viewed as the manifestation of their individual determinations.

Boisot & Child, 1999, characterize China as having a high cognitive complexity caused by ambiguity in where and how power relations are exercised, the presence of multiple governance systems and moderate levels of clan based relational complexity.

Hierarchies: Superior–subordinate relationship

China is culturally a large power distance (Bond 1986; Hofstede and Bond 1988). Large power distance means the less powerful members of organizations accept and expect that power be distributed unequally. Role compliance and adaptation are the focal issues that support the web of relationship surrounding an individual. Chinese families emphasize filial piety, which extended to organization life where the individual has a building sense of the legitimacy of the superior–subordinate relationship (Redding 1993, p. 61).

Respect for elders and those positioned further up in hierarchies is one of Chinese cultural characteristics (Hartmann, Feisel & Schober, 2010)

Supervisor–subordinate guanxi is defined as personal relationship between a supervisor and a subordinate that is developed largely from non-work related social interactions both inside and outside working hours. This guanxi relationship can give subordinates favors and resources like career advancement opportunities (Cheung, Wu, Chan & Wong 2009).


Power stems from ownership: owners and employees view companies as family property and management as akin to regulating a family.

Owner-managers instill values of personal trust, money consciousness and prudence on the family’s behalf. Critical positions tend to be assigned to family or trusted members of lineage groups. Leadership are autocratic but paternalistic. Employers are responsible for employee welfare, allocating jobs, stewardship of resources, helping the inefficient, providing security for the old and showing understanding. In return employees should show unquestioning obedience and diligence. The values of li and hsiao are powerful norms for employers and employees, especially if both are Chinese, making it relatively easy to establish discipline and stable hierarchies (Efferin & Hopper, 2007).

In Chen, Partington & Qiang, 2009 research, they found out two of the identified differences, namely Chinese emphasis on commercial awareness and U.K. emphasis on health and safety, arise from social structural differences in the two nations,
whereas the other three differences, namely Chinese attention to relationships, Chinese concern for their company, and U.K. attention to project contract, are due to the cultural differences between the two nations. (Chen, Partington & Qiang, 2009).

7.3 Cultural Integration - Bridge cultural differences

Previous findings and this chapter addresses topics concerning the implications of cultural differences on M&A.

Morosini 1998 (quoted in Hopkins 1999) suggest that through executive oriented managerial approaches, a company’s leaders and key managers can crystallize the potential upside associated with functioning global coordination mechanisms across national borders and local cultures. Companies can adopt proper strategies and tools to assure the cultural integration process and convey the negative impact into positive.

The hallmarks of effective cultural integration contain cultural assessment, cultural integration plan, constant communication and leadership involvement. In order to avoid the pitfalls, M&A companies can take three basis strategies.

1. Conduct a detailed assessment of a partner’s corporate culture in advance. Cultural difference can shape the approach to integrate the organizations. Companies such as Lucent, Cisco, and Motorola explore a target’s culture beforehand.

2. Communicate openly and regularly with staff about integration activities and their effects of employees.

3. Identify and retain key leaders to drive the success. To keep the talented employees, top-notch integrators develop systems that identify key executive and managers. Key executives often meet with those selected and may offer promotions and bonuses to encourage them to remain with the company (Bogan & Symmers)

The first one should be conducted before actual M&A. The second and third one goes through the whole cultural integration process. This research is focus on integration process. Therefore the second and third aspects will be elaborated in this chapter.

Cultural integration steps and tools

Culture integration is not simple as to merge different cultures into one, but a process to establish a new company model of selecting, absorbing, and integrate cultures. Cross culture management is a system that a company selecting pattern of system,
solves conflicts, converts negative factors into positive and obtains value of cultural synergy during M&A. The basic principle of cross culture management is respecting and understanding another culture, and attaching importance of communication and adapting new changes. People are the core of the management. The company should synthesize strategic significance with its culture. Communication is most effective way.

According to Eaton, combining cultures is a five-step process that can be supported with certain tools. First, the post-acquisition culture must be determined, and then the integration team can deduce the best path to reach that goal (Dunaway, 2008).

Cultural mapping also is employed to understand similarities and gaps in national and corporate styles. In “The Role of Human Capital in M&A,” by Towers Perrin, Stamford, CT, and the Economist Intelligence Unit, London, United Kingdom, a survey of 132 senior executives worldwide involved in M&A revealed that while 47 percent considered achieving cultural alignment a critical people issue, 62 percent saw ensuring effective communication as the most important human factor for M&A success (Dunaway, 2008).

A successful integration melds not only the various technical aspects of the business but also the different cultures. The best way to do so is get people working together quickly to solve business problems and accomplish result that could not have been achieved before.

M&A is like a marriage; the “partners” negotiate the deal, sign the contract, and then expect the “newlyweds” to live together. In M&A, many people—sometimes thousands of people need to learn how to live together. The values and mindset of the acquiring and acquired firms differs. This disparity is more obvious when two firms locate in two companies. GE capital has distilled 4 steps to bridge the cultural gaps that exist when integration any acquisition. GE capital found out that failing to address the “soft” side of integration turns “hard” aspects of integration – such as reconciling different financial accounting practices into mechanical exercises that are executed without understanding or finesse, and often without success. The four steps assure the soft sides (Ashkenas et al 1998).

*The first step is meeting*, greet and plan (urgently). After the transfer of ownership become official, GE capital business leader with acquisition manager organizes orientation and planning sessions for the members of the management team of the new acquisition and their counterpart in GE capital.

*Second step* is communicate, communicate and communicate more.

*The third step* is to address the cultural issue head-on.

*The fourth step* is to move from the few to the many, cascade the integration process
In terms of integration process, GE capital service has developed a pathfinder model, also called the wheel of fortune. GE capital service's integration process has been refined over years. Ashkenas et al 1998 indicated that the model divides the M&A into 4 stages: Pre-acquisition, Foundation Building, Rapid Integration, Assimilation. The stages rotate. In pre-acquisition stage, actions have already involved with integration. It then continues with foundation building. In rapid integration stage, tools are used to accelerate the integration. Integration then will be continued in assimilation. This is explained in figure 2.

Figure 2: The Wheel of Fortune. Source: Ashkenas et al 1998: Making the deal real: How GE capital integrate acquisitions.
During cultural integration process, different tools can be adopted. For example, as indicated in the graph above from GE practice, process mapping, workout, CAP. This literature finding is consistent to my practical findings from Philips integration process.

According to the resources from intranet from Philips, we can see Philips has the similar process of GE. Below is Philips cultural integration process.

- **Step 1 – Make a plan**
  Once a target company has been identified, the first step is to find out what the aspirations, expectations, benefits and critical issues are regarding the proposed acquisition – and to create a strategy for addressing them. At this stage, the integration team is also appointed.

- **Step 2 – Planning is everything!**
  After the Board of Management has given its approval for the acquisition process to proceed, the M&A team embarks on the deal-making process and undertakes due diligence activities. At the same time, the integration team prepares a detailed integration plan. This includes a communication plan to ensure that everyone stays fully informed, as well as details of budgets and who will perform the various roles. When this has been done, the deal is officially made public.

- **Step 3 – Getting into the detail**
  After the deal has been made public, but before everything is signed and sealed, work begins on getting all necessary legal and regulatory approvals. At this point, more people become involved in analyzing the target company and helping to fine-tune the integration plan by, for instance, defining metrics and creating detailed communication, cultural integration and change management plans. Once all these activities have taken place, the final Integration Implementation Plan is defined and approved.

- **Step 4 – Down to business**
  On the day the deal closes, the target company officially becomes part of Philips. The M&A team’s work is mostly finished, but for the integration team, it’s just Day One of the execution phase of the integration process! The key focus now is on creating the optimal value of the acquisition, achieving the best possible synergies and helping our new colleagues feel part of Philips. During this phase, the KPIs and milestones are tracked, and issues are logged and
addressed.

- **Step 5 – Learning lessons!**
  Once the integration project is completed, any outstanding tasks are documented and handed over to the business team. Lessons learned during the integration by the integration team are also captured and shared to ensure that the next integration proceeds even more smoothly than the last!

**Leadership**

The managers and main employees need to develop global mindset. It will help them to view the company from a broad perspective and recognize the value of different cultures instead of from an idiosyncratic cultural perspective. (Shimizu, Hitt, Vaidyanath & Pisano, 2004)

“A company's leader and key managers can crystallize the potential upside associated with functioning global coordination mechanisms across national border and local culture.”

Senior manager's attention and sense making process is will have impact of culture integration. Research of Yu, Engleman & Van de Ven (2005) conducted a longitudinal analysis on decision making in a major hospital construction. Their result indicated decision makers, who are easily influenced by their own cultural sense making frames, will pose challenges in post integration process.

Managers need to establish the strategic context early on; communicate to all constituencies, including employees, suppliers, customers and shareholders; identify and resolve important cultural differences early; identify leaders (Miller, 2000).

**Deep level Culture Learning - Enterprise Communication and Training Mechanism**

Schweiger and Goulet have done a longitudinal observation of three pairs of six manufacturing plants in North America. They tried to find out whether “deep-level “cultural learning can be crucial to bridge culture difference. They concluded "deep-level" cultural leaning efforts produced better results than superficial approaches. This research shed light on the tremendous impact of cultural learning efforts. It shows that investing in post acquisitions cultural management may pay off (Angwin & Vaara, 2005).
Published research, such as Elsass and Veiga, 1994; Schweiger and Goulet, 2005; Gertsen and Søderberg, 1998; Larsson and Lubatkin, 2001; Dackert et al., 2003, suggests that misunderstandings caused by cultural differences can be reduced through interaction, communication and cultural learning. Interaction can take form of “deep cultural learning” or inter-group cultural mirroring exercises, cultural training and company picnics (Schweiger and Goulet, 2005, quoted in Zueva & Ghauri 2007), “social controls” or introduction programs, training, cross-visits, retreats, celebrations (Larsson and Lubatkin, 2001 quoted in Zueva & Ghauri 2007), and joint working teams (Dackert et al., 2003, quoted in Zueva & Ghauri 2007).

Learning about an organization culture is not only how the organization functions but also about why it functions the way it does. However it is difficult to achieve. A deep level cultural leaning, which can reaches down into the more subjective, less formally communication codes for conduct both the acquirer and target may be necessary to facilitate the integration process (Schweiger & Goulet 2005).

The literature on organizational learning emphasizes that organizations involved in radical or transformational change must embrace learning to override ego defenses that maintain collective self-esteem through acts of denial, rationalization, idealization, fantasy, and symbolization (Brown and Starkey 2000 quoted in Schweiger & Goulet 2005).

In acquisitions, cultural differences are likely to give rise to ego defenses that maintain the existing identifies of the acquirer and target. The acquirer and target must transcend their ego defenses to develop empathy for one another (Schweiger & Goulet 2005). The communication mechanism contains multi-level, systemic, formal and informal communication forms. This is the basis of the information flow. Only through continuous communication, trust can be built. The communication mechanism contains multi-level. First is between the CEO, second is between management; third is between management and the staff, and among employees. Official communication, for example, the regular meeting, business, trade union, can be established. Communication day when employee can interact with management directly can be set up. This will strengthen the internal information exchange and can form a sense of rapport relation between manager and employees.

A variety of special events, skill competitions, and association should be created. Through this employee can share experience and knowledge. Peter Keeling, Canadian famous expect of joint venture, indicated that sincerity and technology is the key to success for joint venture, the most important thing is to establish a kind of relationship which makes people from all quarters and from different companies work together (Yong & Tian, 2007).
Training mechanism means M&A firms carry out corporate culture training for managers and employees. For instance, Samsung sends potential young managers to other countries every year. Besides improving these managers’ language skills, they also have to understand in depth the host country’s culture and traditions (Yong & Tian, 2007).

**Information system**

For Western companies in JVs in China, an important issue is how much they introduce emerging standard business practices based around business reporting requirements and Enterprise systems such as ERPs, and how much they recognize that they have to embed the JV in Chinese business practices. Boisot & Child (1999) position this issue as a choice between reducing cognitive complexity through imposing routines and standards on JVs and absorbing complexity through entering into extensive relationships with other Chinese interests.

JVs must exhibit both approaches: Chinese partners bring with them a mosaic of relationships, some of which may help embed the JV while foreign partners bring technologies, expertise and standardized business systems. However, as raised earlier, the interaction between standardized systems and local business practices also takes place within the JV as companies seek to embed standard systems and existing relationships adapt to a changing situation (Westrup & Liu).

Drawing on the results of a survey, Child & Yan (2003) argue that strategic control of UK–Chinese JVs is obtained through a majority equity stake but that operational control is to be gained by investing in non-capital resources such as technical know-how, systems and training that create personal links and allow the parent company to learn from the JV. Subsequently, Yan & Child (2004, p. 168) propose that ‘[a] consistent and well-designed information reporting system operated through the JV management functions can facilitate low-cost knowledge transfer between partners’. They suggest that Chinese management use data as a power resource rather than as a basis for information-led decision making.

### 7.4 Example of the Philips Cultural Integration & Change Management Approach

An overview of the culture integration with time schedule is given in figure 3 and a summary of tools that are used for the culture integration are given in figure 4.
Figure 3: Time schedule for culture integration and change management as used by Philips.

Figure 4: Summary of the culture and change management tools as used by Philips.