Successfully Managing International Mergers and Acquisitions: A Descriptive Framework

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Although international mergers and acquisitions constitute the most frequently used means through which multinational corporations undertake foreign direct investment, the majority of these transactions are not successful. This paper identifies key difficulties that may cause the high failure rates of cross-border mergers and acquisitions, and develops a typology of strategies to facilitate the management of these problems. A descriptive framework is advanced which suggests that the performance of international mergers and acquisitions is a function of successful cultural combination during the post-acquisition integration process. Cultural due diligence, cross-cultural communication, connection, and control are discussed as major determinants of successful cultural combination.

INTRODUCTION

International mergers and acquisitions\(^1\) are among the key corporate strategies multinational corporations (MNCs) use to expand, diversify, or consolidate their businesses. 2006 was a record year for acquisitions worldwide when, for the first time, the annual value of these transactions exceeded US$ 4 trillion, and cross-border acquisitions alone amounted to a record high of US$ 1.3 trillion (Larsen, 2007). This trend continues in 2007, given that the transaction value of global acquisitions in the first three months of the year reached US$ 1.13 trillion, setting up a record for the busiest first quarter in acquisition history (Saigol and Politi, 2007). Along with this recent upsurge in international acquisition activity, however, is the fact that up to 83 percent of these transactions are unsuccessful (KPMG, 1999; Moeller and Schlingemann, 2005; Sirower, 1997). Thus, international acquisitions constitute an unexplained paradox: although academic research and business practice have shown

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that the majority of these transactions fail to achieve pre-acquisition objectives, acquisitions across borders continue to be very popular and remain the main vehicle through which MNCs undertake foreign direct investment (The Economist, 2007; UN Conference on Trade and Development, 2000). It therefore becomes important to examine the causes of international acquisition failure, and to develop strategies that may mitigate these problems.

A considerable amount of management research has developed that focuses on the cultural perspective of international acquisition performance (for recent reviews, see Arikan, 2004; Rottig and Reus, 2005). Researchers argue that a lack of national cultural fit (i.e. cultural distance) may lead to cultural clashes between the involved workforces (Larsson and Risberg, 1998). This may lower employee commitment and cooperation (Cartwright and Cooper, 1996), cause voluntary turnover of acquired top managers (Krug and Hegarty, 1997), and complicate the post-acquisition integration process (Very and Schweiger, 2001). However, empirical research testing this notion focused mainly on a direct relationship between cultural distance and acquisition performance, which has led to mixed and inconclusive findings. Some studies revealed a negative impact of cultural distance on the performance of international acquisitions (Datta and Puia, 1995; Olie, 1994; Uhlenbruck, 2004), while others identified a positive relationship (Doukas and Travlos, 1988; Morosini, Shane and Singh, 1998). Still other studies indicate that cultural distance either has no direct effect on international acquisition performance (Markides and Ittner, 1994) or is one of the least significant variables affecting performance (Kanter and Corn, 1994). These contradicting results raise the question of whether the widely proposed direct relationship between cultural distance and international acquisition performance is more complex than the literature on the topic suggests.

This paper provides a descriptive framework that addresses the complex nature of the consequences of culture for international acquisition performance. This perspective suggests that it is not cultural distance per se, but ineffective management of cultural differences that may be the main reason for the high failure rates of international acquisitions. It is therefore important that MNCs consider the need to successfully combine different cultures in order to improve the performance of these transactions. The framework depicted in Figure 1 suggests that cultural due diligence, cross-cultural communication, connection, and control are the key determinants of successful cultural combination that, in turn, constitutes a key driver of international acquisition performance.

**THEORETICAL BACKGROUND:**

**RESEARCH ON ACQUISITIONS AND CULTURE**

Ever since the first wave of acquisitions in the United States, which began after the Depression of 1883 (Gaughan, 2002), researchers have been studying acquisitions. The common conclusion among early acquisition researchers in the fields of finance and economics was that acquisitions do regularly entail large positive abnormal returns for
the acquired companies, but do not create value for the acquiring organizations (Agrawal and Jaffe, 2000; Datta, Pinches and Narayanan, 1992; Jarrel, Brickley and Netter, 1988). Recent empirical evidence suggests that acquisitions across borders perform even worse than those within borders (Angwin and Savill, 1997; KPMG, 1999; Moeller and Schlingemann, 2005).

Figure 1. The Five-C’s Framework

For example, a study based on a sample of 4,430 acquisitions showed that international acquisitions by US firms are characterized by significantly lower performance (based on stock returns and operating performance) than US-domestic transactions (Moeller and Schlingemann, 2005). This finding reflects the results of an analysis by KPMG (1999), which revealed that as many as 83 percent of the sampled international acquisitions failed to create shareholder value. A survey among top European executives reported that 61 percent of the respondents believed cross-border acquisitions involved more obstacles, problems, and risks than domestic acquisitions, and therefore were less likely to be successful when compared to domestic acquisitions (Angwin and Savill, 1997).

Academicians and business practitioners, therefore, have been trying to identify the factors that contribute to the failure of acquisitions. Domestic acquisition research has primarily focused either on pre-acquisition strategic and organizational culture fit between the involved companies or on the post-acquisition integration process (Buono, Bowditch and Lewis, 1985; Jemison and Sitkin, 1986; Lubatkin, 1983).
Research in the realm of international acquisitions emphasizes the role of national culture, and began with Hofstede’s (1980) seminal study on international differences in work-related values. Hofstede developed four cultural dimensions that he asserted could be used to explain and predict international acquisition success. Hofstede used Unilever (formed through the merger of Dutch Margarine Unie and the British Lever Brothers Ltd. in 1930) and Shell (established by the merger of the Royal Dutch Petroleum Company and the British Shell Transport and Trading Company in 1907) as examples of how national cultures affect international acquisitions. The Dutch and British cultures are relatively similar with regard to individualism, power distance and uncertainty avoidance, but relatively different as to masculinity-oriented values (with the Dutch being relatively feminine and the British being relatively masculine). Based on this observation, Hofstede concluded that both mergers represent “true marriages” (1980: 394) that may explain the success of these transactions. In contrast, Hofstede attributed integration problems during the 1964 Belgian-German merger of Agfa-Gevaert to the fact that the involved organizations’ national cultures differ significantly on several cultural dimensions.

Since Hofstede’s study, a considerable amount of research on the role of culture in international acquisitions developed and surged in the late 1980s after Kogut and Singh (1988) established the measure of cultural distance (which is based on Hofstede’s four cultural dimensions). Empirical research testing the relationship between national cultural differences and acquisition performance, however, is mixed and has led to inconclusive findings.

Datta and Puia (1995), for example, analyzed 112 cross-border acquisitions between 1978 and 1990 and discovered that cultural distance was negatively related to shareholder value creation. Markides and Ittner (1994), however, did not find support for this inverse relationship in their analysis of 276 international acquisitions between 1975 and 1988. Based on a sample of 301 international acquisitions conducted over a nine-year period, from 1975 through 1983, Doukas and Travlos (1988) suggested that MNCs can create shareholder value through international acquisitions. Uhlenbruck’s (2004) examination of 170 international acquisitions between 1990 and 1993 led to the conclusion that cultural distance impedes post-acquisition sales growth. The opposite, however, was found by Morosini et al. (1998), who investigated 52 cross-border acquisitions between 1987 and 1992 and revealed a positive relationship between cultural distance and post-acquisition sales growth. Based on 75 interviews of senior and middle managers at eight US companies which had been acquired by foreign organizations between 1987 and 1990, Kanter and Corn (1994) concluded that cultural distance was one of the least significant determinants of acquisition performance. Norburn and Schoenberg (1994) examined 70 British organizations which acquired companies in Continental Europe during 1988 and 1989 and reported that cultural distance was a cause for the failure of up to 90 percent of the unsuccessful transactions.

These contradicting empirical findings imply that the relationship between cultural distance and international acquisition performance may be more complex than extant research suggests. A recent meta-analysis on the topic identified a relatively small and insignificant direct effect of cultural distance on international acquisition performance,
and called for future investigations into variables that may moderate or mediate this relationship (Rottig and Reus, 2006). Hence, instead of conducting yet another empirical study to examine the impact of cultural distance on acquisition performance, further conceptual research may be needed to better understand the role of culture in international acquisitions.

In the context of acquisitions, two dimensions of culture are particularly important: national culture, relevant for international acquisitions, and organizational culture, relevant for both, domestic and international acquisitions. The latter is generally defined as an interrelated and interdependent system of practices, norms, assumptions, and beliefs that members of an organization collectively bear (Gertsen, Soderberg and Torp, 1998). These assumptions, practices, and norms are mostly unconscious, learned through organizational socialization, reflect shared perceptions of daily practices, and generally determine ‘the way in which things are done’ within an organization (Cartwright and Cooper, 1996; Gertsen, et al., 1998; Weber, 1996).

National cultures comprise the prevailing values of a society, encompassing language, religions, traditions, customs, and historical heritages (Gertsen, et al., 1998; Lubatkin, Calori, Very and Veiga, 1998; Very and Schweiger, 2001). Perhaps the most widely used definition of national culture is the one offered by Hofstede, that describes culture as the “collective programming of the mind that distinguishes the members of one group or category of people from another” (2001: 9).

Researchers studying domestic acquisitions suggest managing differences in organizational cultures through the process of acculturation (Elsass and Veiga, 1994; Nahavandi and Malekzadeh, 1988; Sales and Mirvis, 1984). The term acculturation originated from anthropology and cross-cultural psychology (Berry, 1980) and (in the context of acquisitions) is defined as “the outcome of a cooperative process whereby the beliefs, assumptions and values of two previously independent work forces form a jointly determined culture” (Larsson and Lubatkin, 2001: 1574). Nahavandi and Malekzadeh (1988) developed a conceptual model of the acculturation process in acquisitions, that suggested four different modes of acculturation: integration (a process characterized by structural assimilation of two cultures that, however, preserves the cultures and identities of both the acquirer and the acquired organization), assimilation (a unilateral process whereby the acquired organization willingly relinquishes its culture and identity by adapting to the culture of the acquirer), separation (where minimal cultural exchange between an acquirer and acquired organization ensures both cultures remain completely separated), and deculturation (a process whereby the acquired organization disintegrates as a cultural entity, but refuses to be assimilated into the culture of the acquirer).

Nahavandi and Malekzadeh (1988) suggest that successful cultural combination in domestic acquisitions depends on the level of congruence between an acquirer’s and an acquired organization’s preferred modes of acculturation. If both organizations agree on a mode of acculturation, then different organizational cultures may be made compatible during the post-acquisition integration process. For example, if an acquirer demands conformity by imposing its own culture on a new acquisition, and the acquired
organization is willing to relinquish its culture and adopt an acquirer’s organizational culture (i.e. both organizations agree on the assimilation mode of acculturation), then cultural differences may not necessarily lead to integration problems. In contrast, divergence about an acquirer’s and acquired organization’s preferred modes of acculturation commonly gives rise to acculturative stress that may jeopardize the post-acquisition cultural combination process (Nahavandi and Malekzadeh, 1988).

The acculturation model was developed in the context of domestic acquisitions. Acquisitions across national borders, however, are often complicated by stereotypes, prejudices, and nationalism that may entail conflict, lack of trust, and reduced commitment (Olie, 1990; Vaara, 2003). It is therefore usually quite difficult to achieve a consensus between a foreign acquirer’s and local target’s preferred modes of acculturation. It seems rather unlikely, for example, that a local target will agree to the assimilation mode of acculturation that would entail complete adoption of a foreign acquirer’s organizational and national cultures. It is equally improbable that a local target would find the deculturation type of acculturation appealing, given that such a choice would lead to a complete loss of its own (organizational and national) culture and identity. Furthermore, separation may not be a wise choice for a foreign acquirer due to the fact that generally, some level of integration is needed in international acquisitions to achieve certain objectives (such as cost synergies or transfer of resources and capabilities). The applicability of the acculturation model to international acquisitions, therefore, seems very limited.

**CONCEPTUAL DEVELOPMENT**

The purpose of this paper is to examine how multinational corporations may successfully combine different cultures in international acquisitions. Prior to such an examination, however, it is important to understand the strategic imperatives of acquiring organizations in distant cultural environments. Some researchers suggest that cultural distance constitutes a barrier to international expansion and, therefore, advise MNCs to incrementally increase their international involvement from culturally similar to culturally distant countries (Barkema, Bell and Pennings, 1996; Johanson and Vahlne, 1977). Such an assertion is based on the assumption of bounded rationality (Simon, 1947) on the part of managers, leading to incomplete information about, and limited knowledge of, distant foreign markets (Johanson and Vahlne, 1977; Martin, Swaminathan and Mitchell, 1998). Therefore, national culture differences between an MNC’s home and host markets have often been hypothesized to complicate international acquisitions.

This paper, however, is based on a different assumption. The framework developed in this study suggests that cultural distance may not necessarily impede international acquisitions if an acquirer successfully combines different cultures. Cultural differences may even constitute an opportunity for MNCs to achieve a global competitive advantage. Through acquisitions in culturally distant markets, an MNC may be able to access crucial resources and capabilities that are not available in culturally similar markets. Researchers have suggested that through internationalization into
distant foreign markets, MNCs may expand their knowledge bases, access innovative technological capabilities, and gain valuable international experience (Zahra, Ireland and Hitt, 2000). Furthermore, researchers have noted that expansion into distant international markets allows MNCs to deal with a diverse set of competitors and customers, that may create a significant competitive advantage over purely domestic firms (Barkema and Vermeulen, 1998) and allow MNCs to preempt rivals (Martin, et al., 1998).

Morosini et al. (1998) argue that national culture differences may enhance the performance of international acquisitions by providing access to the acquired organizations’ unique and valuable routines and repertoires embedded in their respective national cultures. Ghemawat (2003) discusses the concept of cultural arbitrage, defined as the exploitation of differences in national cultures. He notes that most of contemporary global strategy overemphasizes the minimization of differences between countries, and instead calls for such strategies as cultural arbitrage that may exploit these differences. Consequently, differences in national (and organizational) cultures, if managed effectively, may be beneficial rather than detrimental for MNCs undertaking international acquisitions. The key question to ask, then, is not whether to acquire companies in culturally distant markets, but rather, how to do so successfully.

The framework developed in this paper (see Figure 1) sets out to answer this question, and portrays the drivers of international acquisition performance. The model suggests that performance is a function of successful cultural combination which, in turn, is determined by cultural due diligence, cross-cultural communication, connection, and control.

**COMBINING CULTURES SUCCESSFULLY**

A study of European CEO’s by Booz, Allen and Hamilton (1985) revealed that the ability to successfully integrate an acquired organization is one of the most important determinants of acquisition performance. Business practice has shown, however, that a large number of acquirers do not have a clear strategy of how to integrate culturally different organizations, which may have caused the high failure rates of these transactions. Researchers studying domestic acquisitions, therefore, suggest that the post-acquisition cultural combination process is a key determinant of acquisition performance (Buono and Bowditch, 1989; Haspeslagh and Jemison, 1991; Jemison and Sitkin, 1986; Shrivastava, 1986).

In international acquisitions, integration problems due to dissimilar organizational cultures are often exacerbated by differences in national cultures. International acquirers, therefore, often experience a “dual cultural clash” (Larsson and Risberg, 1998: 45). An example of a dual cultural clash can be found in the acquisition of the Spanish Sociedad Española de Automóviles de Turismo S.A. (SEAT) by the German Volkswagen Group in 1987. Because Volkswagen’s management underestimated problems resulting from national and organizational culture differences, the integration
of SEAT into the Volkswagen Group was jeopardized and the process stretched out for almost a decade (Helmer, 2000).

In order to avoid dual cultural clashes, international acquisitions require “double layered acculturation” (Barkema, et al., 1996: 151), that addresses the combination of both different organizational and distant national cultures. A 1999 KPMG study revealed that international acquirers that focused on cultural issues in the post-acquisition integration process were 26 percent more successful than international acquirers that neglected these issues. Veiga, Lubatkin, Calori and Very (2000) surveyed 180 executives from 106 acquired companies and reported that post-acquisition performance was highest when the cultures of the acquirer and target organizations were very different prior to the acquisition, but made compatible after the acquisition.

These studies demonstrate that pre-acquisition cultural differences between an acquirer and target organization may not necessarily be detrimental to international acquisitions. MNCs that actively manage the post-acquisition integration process may be able to combine different organizational and national cultures and, therefore, may successfully acquire organizations in culturally distant markets.

Proposition 1: Successful cultural combination is positively associated with the performance of international acquisitions.

Based on the aforementioned considerations, it becomes important that MNCs recognize the importance of, and need for, successful cultural combination in international acquisitions. However, the question arises of how to successfully combine dissimilar cultures. Cultural due diligence may constitute a first step towards an answer to this question.

Cultural Due Diligence

The combination of different cultures in international acquisitions generally occurs in the post-acquisition integration stage when the involved organizations are forced to work together. Prior to an acquisition, acquirers usually undertake financial due diligence to determine the proper transaction price and payment method. While financial issues are commonly seen as having great importance, a large number of acquirers neglect to attach equal importance to cultural issues as part of due diligence. Cultural due diligence refers to the determination of cultural compatibility in international acquisitions. Cultural compatibility does not necessarily equal cultural similarity, but rather refers to whether two cultures are “combinable”. Pre-acquisition cultural due diligence may enable an acquirer to determine whether a combination of different cultures in the post-acquisition stage has high chances of success. Research has shown, however, that sound cultural analyses were neglected by a large number of acquirers and may have caused the failure of these transactions. Angwin’s (2001) study of 142 cross-border acquisitions, for example, reports that the majority of acquirers attached low importance to the assessment of cultural compatibility as part of their pre-acquisition due diligence.
The most obvious strategy an acquirer may use to avoid cultural problems in international acquisitions is to refrain from acquiring a target if cultural due diligence indicates the cultures of the organizations are incompatible. An example is the acquisition of Tokyo Bank by Mitsubishi Bank in 2003. The organizations were characterized by very dissimilar organizational cultures. Mitsubishi Bank’s employees shared the common cultural norms of always being on time for work (sharp!), only wearing white shirts at work, and thanking their department managers and supervisors in person for their monthly pay checks (which had become a ceremonial method of showing appreciation for being paid by the organization). In contrast, Tokyo Bank’s employees were not used to reprimands for arriving late to work, and were not accustomed to a strict dress code. These employees also had no obligation to perform a thank-you ceremony when collecting their monthly pay checks. After the acquisition, a large number of Tokyo Bank employees became alienated by Mitsubishi Bank’s strict culture, and voluntarily left the combined organization. These problems may have been avoided had Mitsubishi Bank conducted cultural due diligence prior to the transaction. Although this example refers to a domestic transaction, one can imagine how more difficult it may become to integrate two or organizations that are not only different in organizational, but also national cultures.

In business practice, the pre-acquisition process typically cannot be completed fast enough in order to complete the transaction and avoid the leak of information. Hence, there is often little time to carefully survey and systematically analyze the cultural features of potential target organizations. It is therefore advisable that an acquirer analyze its own organizational and national cultures prior to undertaking international acquisitions. Doing so may result in a systematic and comprehensive cultural profile. Such a cultural profile may facilitate a crude comparison of an acquirer’s organizational and national culture characteristics with those of a potential target organization. Based on such a comparison, an acquirer may be able to identify whether the involved cultures are compatible, and how to best combine dissimilar cultures.

Referring back to the aforementioned example, it is likely that Mitsubishi Bank was not aware of the strict nature of its own organizational culture prior to the acquisition. When the dissimilar cultures of Mitsubishi Bank and Tokyo Bank came in close contact, however, the characteristics of each culture became readily apparent. Had Mitsubishi Bank compiled a cultural profile prior to the transaction, it would possibly have discovered that Tokyo Bank’s culture differed significantly. Based on such a comparison, Mitsubishi Bank could have either refrained from acquiring Tokyo Bank, or developed adequate strategies that may have facilitated the post-acquisition cultural combination process.

An acquirer’s cultural profile may be refined based on cross-cultural acquisition experience. As an old anthropological principle suggests, the study of culture can be undertaken only when at least two cultures are present: one culture being the subject of study, and the other culture being the point of reference. Cross-cultural acquisition analysis, therefore, may provide an acquirer with valuable points of reference against which to compare its own organizational and national cultures.
Based on these considerations, it follows that cultural due diligence may be a valuable tool for the identification of potential problems arising from cultural differences. Systematic cultural due diligence prior to an acquisition may determine whether the cultures of the acquirer and target organization are compatible, and how the different cultures may best be combined. Such a sound cultural analysis lays the foundation for the management of cultural differences, and therefore may contribute to successful cultural combination during the post-acquisition integration process.

Proposition 2: Cultural due diligence is positively associated with successful cultural combination in international acquisitions.

Cross-Cultural Communication

Research on domestic acquisitions emphasizes the value of communication with employees during the post-acquisition integration process (Schweiger and DeNisi, 1991). Acquisitions of culturally different organizations are often characterized by prejudices and stereotypes about “the others”, and it therefore may be important for an acquirer to effectively communicate with all employees of the combined organization to avoid the development of hostile attitudes among the involved workforces. Oftentimes, however, acquisitions are characterized by poor communication between the managers and employees of the acquirer and acquired organization due to ineffective management of the post-acquisition integration process.

An example can be found in the German banking industry. After the 1970 merger between the Berliner Handelsbank (founded in 1856) and the Frankfurter Bank (which was established in 1854) to form BHF-Bank, the combined workforce did not readily communicate. Due to their long histories and traditions, both banks had formed distinct organizational cultures. Instead of encouraging cross-cultural exchange through effective communication, the management of the newly established BHF-Bank committed a serious mistake. It decided to maintain different phone number extensions for former Berliner Handelsbank employees (who kept their 4-digit extensions) and former Frankfurter Bank employees (who maintained their 3-digit extensions). This decision impeded telecommunication among the BHF-Bank’s workforce since employee affiliations were readily identifiable based on their phone number extensions. As a result, employees who associated with one bank avoided calling their counterparts at the other bank, complicating the cultural integration process within the newly established organization.

While poor communication may entail significant integration problems for domestic acquisitions, it may cause the demise of acquisitions across borders. International acquisitions are characterized by language barriers, ethnocentrism, nationalistic attitudes and, in extreme cases, xenophobia (Vaara, 2002, 2003). These problems may not only create hostile feelings against the workforce of “the other organization”, but also fuel employees’ fears of losing their jobs. Typically, from the moment an acquisition has been announced, employees of the involved organizations, especially those employed by the acquired company, begin fearing the loss of their jobs.
These employees generally will not be able to concentrate on work again until this issue has been discussed (Astrachan, 1990). Lack of effective cross-cultural communication in such situations may exacerbate uncertainties, fears, and rumors about layoffs among the involved workforces. It therefore becomes particularly important to effectively communicate with employees during the integration process of international acquisitions.

When employees do need to be laid off, which is an often inevitable consequence of an international acquisition, the management of the combined organization is advised to communicate its intentions to the entire workforce (Astrachan, 1990). Open communication with all employees and reasonable explanations for why jobs have to be eliminated (e.g. by emphasizing the need to maintain the combined organization’s competitive position and to secure the jobs of the remaining workforce) is a recommended and perhaps most appropriate way to deal with such sensitive personnel issues (DeNoble, Gustafson and Hergert, 1997).

Employees who are scheduled to be laid off following an acquisition should be treated with special care. These workers and managers deserve an early warning about an acquirer’s intentions, and the combined organization should provide assistance to these employees in finding new employment (DeNoble, et al., 1997). These measures are important from the perspective of corporate social responsibility. Furthermore, such open communication may increase the identification of the remaining workforce with the combined organization, given that these employees and managers may recognize and appreciate the fair way in which the acquirer treated those who had to leave their jobs (DeNoble, et al., 1997).

In addition, two-way communication between the workforces of the involved organizations may ensure that managers and employees are able to express their worries and voice their concerns. Such two-way communication may be achieved through cross-culturally trained and experienced managers, who, together with top managers and well-known representatives of the acquirer, can visit key facilities of the acquired organization to discuss important personnel issues with the acquired workforce. In so doing, an acquirer shows appreciation for, and communicates the importance of, the acquired workforce and may preempt uncertainties, fears and rumors about potential lay-offs (Wall, 2001). Consequently, employees who remain in the combined organization can refocus on their work again.

Effective two-way communication may also prevent the voluntary turnover of key managers and employees who are not scheduled to lose their jobs. Such voluntary turnover often occurs when managers and employees irrationally fear dismissal and, therefore, seek employment with other organizations (Krug and Hegarty, 1997; Krug and Nigh, 1998). A study by KPMG (1999), for example, shows that 50 percent of managers voluntarily left their organizations within the first year after being acquired by a foreign organization. The same study also reveals that acquirers that prioritized effective cross-cultural communication were 13 percent more successful in integrating the acquired organization.
In sum, effective cross-cultural communication may encourage employees and managers from both sides to lose any fear of being laid off, to resolve sensitive personnel issues, and to voice concerns. Furthermore, such communication may preempt uncertainties and rumors about potential layoffs, decrease the likelihood of voluntary turnover, and increase employee identification with the combined organization. This, in turn, may contribute to successful cultural combination in international acquisitions.

**Proposition 3:** Cross-cultural communication is positively associated with successful cultural combination in international acquisitions.

**Connection**

Drawing from contemporary social capital theory in organizational analysis (Adler and Kwon, 2002; Nahapiet and Ghoshal, 1998), connection is conceptualized in this paper as the structural and relational social ties and networks between the organizations involved in international acquisitions. Structural ties refer to the official communication and reporting channels that are comprised of the formal connections within the hierarchy of the combined organization following an acquisition. The establishment of an organizational hierarchy that spans the combining organizations allows interaction between the workforces of the acquirer and acquired organization. A formal organizational structure, however, merely represents the opportunity for the involved workforces to connect with each other. If no advantage is taken of these opportunities, the managers and employees of the acquirer and acquired organization may not develop ties and network relationships (Rottig, 2006).

Relational ties, the second type of connection, go beyond the mere formal organizational structure and concern an organization’s informal structures and communication channels. Relational ties facilitate the development of commonly shared values, norms of reciprocity, trust, and collective identification (Bourdieu, 1986; Coleman, 1990; Fukuyama, 1995; Putnam, 1995). In order to effectively establish a connection between the workforces of an acquirer and acquired organization, it may therefore be important to not only create structural ties (such as formal hierarchical structures), but also to encourage the involved workforces to develop relational ties and network relationships.

An acquirer may, for example, schedule formal and informal meetings, establish inter-subsidiary committees, specialized task forces, and cross-cultural teams, and rotate key personnel between the acquirer and acquired organization (Lajoux, 1998; Wall, 2001). In addition, an acquirer could strategically employ boundary spanners (Tushman and Scanlan, 1981), who may facilitate the association of the combined workforce. Ghoshal, Korine and Szulanski (1994), for example, found that relational, interpersonal networking facilitated the exchange of knowledge and information among the foreign subsidiaries of multinational corporations, and therefore contributed to the connection of managers and employees.
Given the significant developments in communication and information technology, an acquirer could offer innovative opportunities to encourage employees from different cultures to connect to one another. Acquirers may, for example, establish an organization-wide intranet, offer online chat rooms, or create intra-organizational TV channels. In so doing, international acquirers may raise individuals’ understanding about cultural differences and facilitate the networking of the involved managers and employees, thereby promoting a connection within the combined workforce.

There have been cases where unconventional approaches have proven successful in international acquisitions to motivate the combined workforce to readily connect. An example is the acquisition of Chrysler by Daimler-Benz in 1998. On the day the acquisition was announced, American cheerleaders performed on Berlin’s Potzdamer Platz for the workforce of Daimler-Benz, and Chrysler’s employees had the opportunity to taste ‘Wiener Schnitzel’ and ‘Spätzle’ (a Swabian speciality) in the canteens of the company’s production facilities. The canteens in Sindelfingen and Untertürkheim (production locations of Daimler-Benz in Germany) offered doughnuts, cookies, and muffins for the first time, and US country bands performed for the German workforce during lunch (Waller, 2001). These actions were intended to encourage the workforces of Daimler-Benz and Chrysler to appreciate cultural differences and connect with their counterparts.

These actions also aimed to facilitate the development of a “we” mentality among the combined workforce. International acquisitions often entail a ‘winner’ and ‘loser’ mentality, an ‘acquirer’ and ‘acquired’ attitude, or a ‘conqueror’ and ‘conquered’ mindset among the managers and employees of the acquirer and acquired organization (Wall, 2001). Such attitudes create an “us” versus “them” thinking, making it difficult for either side to readily connect. It therefore is important that an acquirer provides opportunities for key managers and employees from both organizations to interact in informal and social settings. Such opportunities for socialization may include mutual visits of key managers and employees from both organizations, and informal gatherings as simple as having lunch or dinner together. This socialization may facilitate mutual understanding and appreciation of cultural differences, enable connection between the workforces of the acquirer and acquired organization, and contribute to successful cultural combination.

Proposition 4: Connection between an acquirer and acquired organization is positively associated with successful cultural combination in international acquisitions.

Control

A significant problem in a large number of international acquisitions is lack of control. Often, mistaken expectations among acquired managers and employees are caused by announcing an acquisition as a “merger of equals”, creating the impression that control of the combined organization will be shared equally among the acquirer and the acquired company. While less than 3 percent of all cross-border acquisitions are
mergers, “[i]n reality, even when mergers are supposedly between equal partners, most are in fact acquisitions with one company controlling the other.” (UN Conference on Trade and Development, 2000: 99). Examples of acquisitions announced as mergers of equals are the acquisition of Chrysler by Daimler-Benz, the takeover of Telekom Italia by Deutsche Telekom, and the transaction between the German Hoechst and the French Rhône-Poulenc. Deals announced as mergers of equals, that later turn out to be acquisitions, create confusion among the acquired organization’s managers and employees, lowering their confidence in, commitment to, and cooperation with the acquirer and impeding successful cultural combination.

For example, when Daimler-Benz and Chrysler combined their businesses in 1998, the managements of both organizations announced the transaction as a merger of equals. However, it soon was apparent that Daimler-Benz had actually acquired Chrysler, given that the former paid a premium for the latter, which is atypical for a merger of equals. Daimler-Benz wielded greater power and former managers of Daimler-Benz dominated the combined organization’s board of management. Less than one year after the transaction was announced, DaimlerChrysler’s board of management consisted of nine former Daimler-Benz managers and only five former executives from Chrysler. Three years after the deal, the number of Chrysler representatives had decreased to two. Furthermore, although Robert Eaton (formerly CEO of Chrysler) and Jürgen Schrempp (formerly CEO of Daimler-Benz) had agreed to co-chair the management board of the combined organization, Eaton resigned his job much earlier than planned, leaving the post solely to his German counterpart.

This sudden change in the combined organization’s management gave the German side even more power. James Holden, who had been appointed CEO of Chrysler after the acquisition, was replaced by the German Dieter Zetsche, the current CEO of DaimlerChrysler, at the end of 2000. One of Dieter Zetsche’s first decisions as the new CEO of Chrysler concerned a layoff of 26,000 Chrysler employees, resulting in skepticism, distrust, and declining morale among DaimlerChrysler’s US employees. In an interview with the Financial Times at the end of October 2000, Jürgen Schrempp (then chairman of DaimlerChrysler) stated that he had never intended a merger of equals but instead always aimed to acquire Chrysler. This imprudent statement further lowered the morale among Chrysler’s employees and created hostile feelings towards their German counterparts.

As this acquisition exemplifies, the creation of incorrect expectations among the workforce of the acquired organization by announcing an acquisition as a merger of equals may result in a misconception of who is actually in control. This, in turn, may jeopardize the authority of the acquirer, curtail the extent to which an acquirer has control over the post-acquisition integration, and complicate the cultural combination process. In a 2001 interview, Jack Welch (then CEO of General Electric) argued that mergers of equals are an illusion given that one company always has to have control over the transaction for the involved organizations to be successfully combined (Blumencron and Steingart, 2001). In the interview, Welch also provided his own view on how to best combine different cultures. He noted that when undertaking
acquisitions there was no doubt about which organization was in control, ensuring that in the end only one organizational culture will remain, namely that of General Electric.

Whereas such a domination strategy may be effective in domestic acquisitions, it seems less likely that an acquired foreign organization would be willing to give up its organizational and national cultural affiliations. It therefore becomes important to (a) not create incorrect impressions among the workforce of the acquired organization to ensure mutual understanding of who is in control, and (b) use a type of control that encourages commitment and cooperation among the acquired managers and employees. Multinational corporations acquiring companies across borders, therefore, are advised to refrain from creating false expectations by announcing an acquisition as a merger of equals. Instead, acquirers should ensure that the acquired workforce understands which organization is in control. This does not mean, however, that an acquirer needs to rely on hierarchical and dominant types of control. Other types of control that are less condescending and disdainful towards acquired managers and employees may be more appropriate in the context of cross-cultural acquisitions.

This issue is particularly important from the perspective of the culture-related issue of saving face (Yau-fai Ho, 1976). Due to different historical and cultural backgrounds, managers of acquired organizations often would rather not implement an economically well-founded transaction if it would mean selling their organizations to ‘foreigners’, or if they would appear in public as “conquered” or “losers”. Business practice has shown that in a large number of acquisitions, managers failed to treat this sensitive issue carefully. In the context of domestic acquisitions, managers of an acquired organization may be willing to relinquish their own organizational culture and adapt to that of the acquirer. In cross-border acquisitions, however, the same managers may perceive themselves (and perhaps may be perceived by others) as ‘champions’ of their national culture (Weber, Shenkar and Raveh, 1996). Managers of a local target organization may be unwilling to cooperate with culturally dissimilar foreign acquirers (Forstmann, 1998) and therefore, it may be important that acquirers use a type of control that is sensitive to the issue of saving face, and that treats the acquired workforce with the necessary deference.

One such type of control can be derived from the work of Ouchi (1979, 1980). Ouchi conceptualized a type of control, referred to as clan control, which “relies for its control upon a deep level of common agreement between members on what constitutes proper behavior” (Ouchi, 1979: 838). Due to mutual socialization of organizational members, an “organic solidarity” (Ouchi, 1980: 135) may develop that entails the creation of common values, norms, beliefs and trust. International acquirers can implement this type of control by creating opportunities for interaction between key managers and employees from both organizations.

For example, by creating task forces which are specialized, cross-functional teams of managers and employees from both organizations, acquirers may encourage interaction, mutual socialization, and mutual understanding among the workforce of the combined organization. Such task forces may be set up to work independently and self-responsibly on specific assignments, such as post-acquisition integration issues. Task
forces could, for example, be created for developing a post-acquisition plan in which fundamental integration and cultural combination issues are specified. Doing so provides an opportunity for cooperation and socialization among key managers from both organizations, and therefore may raise their commitment to the post-acquisition integration strategy.

In clearly assigning authority and decision-making responsibilities to each task force member and in setting specific time frames for the completion of assignments, such cross-cultural teams would have little time to become distracted by cultural differences. Instead, these teams could concentrate on successfully completing their assignments in a timely manner which can only be achieved by working together effectively. Hence, the members of such task forces are encouraged to leverage cultural differences and take advantage of each others’ strengths. The creation of task forces, therefore, may motivate managers and employees from both organizations to socialize, to appreciate the value of cultural differences, and to build mutual trust and commitment without the need for hierarchical control or extrinsic pressures.

A similar type of control is mentioned by Larsson and Lubatkin (2001). These authors found that successful acculturation in international acquisitions can be achieved through social controls. Social controls are defined as the amount of coordination and socialization efforts undertaken by a foreign acquirer. Based on a meta-analysis of 50 case studies on domestic and cross-border acquisitions over three decades, Larsson and Lubatkin conclude that in order to successfully combine cultures in international acquisitions, “almost only one thing matters: involve the affected employees in such socializing activities as introduction programs, training, cross visits, joining retreats, celebrations and other such socialization rituals and they are likely to create a joint organizational culture on their own volition, as long as they are allowed autonomy. However, if such autonomy is restricted..., then additional social control mechanisms are required. These include various informal coordination efforts such as transition teams, senior management involvement and temporary exchange/rotation.” (2001: 1594).

Interestingly, this study also reveals that cultural distance has no adverse effect on successful acculturation in international acquisitions. This finding reinforces the assumption herein: that cultural differences, if managed successfully, constitute an opportunity for (rather than a barrier to) MNCs undertaking international acquisitions.

In sum, clearly signaling which organization is in control and using types of control that create commitment, trust and cooperation among the combined workforce is likely to contribute to successful cultural combination in international acquisitions.

Proposition 5: Control by a foreign acquirer over the post-acquisition integration process is positively associated with successful cultural combination in international acquisitions.
CONCLUSION

A recent conference on managing culture in acquisitions, held at the Thurnau Castle in Germany, attracted international scholars and business executives with extensive experience in international mergers and acquisitions (M&A). They concluded “that despite the extensive body of research on M&A that has accumulated over the last thirty years, the key factors for M&A success and the reasons why so many M&A fail remain poorly understood” (Stahl and Mendenhall, 2005: xiii). Although a considerable body of research has developed considering cultural distance as the main reason for the failure of international acquisitions, empirical findings are mixed and inconclusive. This study constitutes a first step towards reconciling these contradictory findings. The main assumption made in this paper is that cultural differences may not necessarily represent a detrimental force impacting international acquisitions. Instead, poor management of the cultural combination process in the post-acquisition stage may be responsible for the large number of poorly performing cross-border acquisitions.

This paper has addressed common difficulties in international acquisitions, and has developed a typology of strategies that may curtail these problems. It has been proposed that the performance of international acquisitions is a function of successful cultural combination during the post-acquisition integration process. The framework developed in this paper suggests that successful cultural combination is determined by Cultural due diligence, cross-cultural Communication, Connection and Control. Due to the common initial letters of these five antecedents of international acquisition performance, the advanced model may be referred to as the “Five C’s Framework” of successful international acquisition management.

Based on this framework, practitioners may gain a better understanding of why such a large number of acquisitions fail to achieve pre-acquisition objectives. The Five C’s framework also provides insights into how multinational corporations may overcome the problems that plague international acquisitions. In conducting cultural due diligence, effectively communicating across cultures, encouraging the connection of the involved workforces, and using social types of control, MNCs may be able to manage the cultural combination process. Successful cultural combination, in turn, is likely to contribute to the performance of acquisitions in culturally distant markets.

The advanced framework also contributes to a better conceptual understanding of culture’s consequences for international acquisitions, which may be more complex than extant literature on the topic suggests. For example, Leung et al. (2005) assert that cross-cultural research has rarely moved beyond the analysis of a direct effect of culture on specific criterion variables, such as international acquisition performance. These authors call for a more complex theorization of culture, including the consideration of mediating, moderating and antecedent effects. This paper suggests that successful cultural combination may constitute a key variable mediating the relationship between cultural distance and international acquisition performance.

Opportunities for future research include an examination of possible interrelationships among the five antecedents of international acquisition performance.
discussed in this paper. For example, cross-cultural communication may constitute a prerequisite for the connection of the managers and employees from the acquirer and acquired organization, and connection may further encourage communication among the combined workforce. In addition, future research may identify determinants of international acquisition performance beyond culture. For example, some scholars have begun to investigate the role of the institutional environment and examined such antecedents of international acquisition performance as host-country government intervention in transitional economies (Uhlenbruck, 2004; Uhlenbruck and De Castro, 2000) and institutional distance between an acquirer-home and target-host country (Rottig, 2007).

As noted by a number of scholars (Larsson and Lubatkin, 2001; Stahl and Mendenhall, 2005; Vaara, Tienari and Säntti, 2003), the role of culture in international acquisitions is still poorly understood. This state of the literature may be due to a lack of an integrative conceptual framework supported by consistent empirical evidence. It becomes clear that much conceptual and empirical research remains to be done to better understand culture’s consequences for international acquisition performance. The purpose of this paper is to take a first step towards filling this void in the literature, and it is hoped that the advanced framework will stimulate future theoretical and empirical research in this interesting and important field of study.

NOTES

1 Conceding a conceptual distinction between the terms ‘mergers’ and ‘acquisitions’, in this paper, I will use the term ‘acquisitions’ synonymously for the term ‘mergers and acquisitions (M&As)’. In fact, business practice has shown that ‘the number of “real” mergers is so low that, for practical purposes, “M&As” basically mean “acquisitions”’. (UN Conference on Trade and Development, 2000: 99)

REFERENCES


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